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THE ROUND TABLE

QUARTERLY REVIEW OF THE POLITICS OF THE
BRITISH COMMONWEALTH

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Towards the World Conference

The Future of India

Ottawa Interim Reflections

The Tragedy of Japan

Ireland

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India A Less Tense Quarter

Great Britain

*The Position of the Government—Coal, Cotton and
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Canada

*Personalities at the Imperial Conference—The Broad-
casting Problem*

Australia

*The Economists' Report—The Fall of Mr Lang and
the State Elections*

South Africa

*The Session, and After—The Native Economic Commission,
1929-1932*

New Zealand

The Government's Plan—The Reaction—Imperial Matters

East India (Constitutional Reforms) Communal Decision

SEPTEMBER

MCMXXXII

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THE BRITISH COMMONWEALTH

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TOWARDS THE WORLD CONFERENCE

THE last three months were by general consent destined to be a decisive stage in the history of the crisis. They would decide whether its future course was to be for better or for worse. They would show whether there was any hope of European agreement in the political field by the application of a double test, the discussion of reparations and of disarmament. They would probably reveal the fate of central Europe. They would indicate whether the reflationary measures undertaken by the United States Government were to bear fruit or not. They would bring more conclusive evidence as to the stability and efficacy of Great Britain's new financial and fiscal régime. Progress in all these matters was clearly indispensable to the beginnings of a recovery.

As usually happens in human affairs, nothing quite turned out as pure reason might have anticipated. On none of the four vital points have events given the definite verdict that either the optimists hoped or the pessimists feared. We are not yet basking in the sunshine of renewed confidence, nor, however, are we plunged in the cold shades of despair. We are still forging ahead under a grey sky, which shows some signs of breaking and lifting here and there, but which still forebodes stormy possibilities.

At any rate, Lausanne was not a failure. That in itself is an enormous gain. If there had been no agreement, the outlook would indeed have been black. But there was an agreement, accepted by all the plenipotentiaries present. Of course, there were moments when a breakdown seemed inevitable, as there always are at every conference, national or international, at which fateful issues have to be debated; but everyone really knew that agreement must be found.

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As a Frenchman put it, the problem was how to conceal the fundamental accord with which the delegates met behind the veil of superficial discord which their public opinions demanded. It says a great deal for the conciliatory spirit both of M. Herriot and of Herr von Papen that they succeeded on the whole in this delicate exercise, for neither of them had an easy task. It also says much for the mediatory skill of the Prime Minister that he helped them so successfully to reach the desired goal. In the end a convention was signed, in fact abolishing reparations payments, but maintaining a conditional obligation on Germany to contribute to a fund for the reconstruction of Europe at some future time. Neither France nor Germany is completely satisfied by this solution, which may be a proof of its substantial soundness; but at first sight it is curious that the French are better pleased with the shadow, which has been conceded to their thesis, than the Germans with obtaining the solid substance of their claim. Perhaps M. Herriot's reception at home would not have been so warm, and Herr von Papen's would have been less cool, but for the publication of the new Pact of Confidence in a way which gave it the appearance of a renewal of the Anglo-French entente. But even without this element the French position was greatly strengthened by the achievement of a common front with Great Britain in any negotiations with the United States, while the absence of any expurgation of the war-guilt clause left Germany without the kind of moral satisfaction to which in her present mood she attaches more importance than to material benefits, however paradoxical this may seem in the light of her economic situation.

It remains, however, for the Lausanne Convention to be ratified, and ratification is unfortunately not dependent on Europe alone, but on the result of negotiations with the United States for the remission or reduction of the war debts. Unless a "satisfactory settlement" of this difficult question is reached, "the agreement with Germany will not be ratified," the Young Plan will come into force once

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more and a new conference will have to seek a new way out. The peace of Europe is, therefore, made directly contingent on the good-will of America, for there can be no peace, and certainly no prosperity, in Europe until the whole reparations question is finally and completely buried. It is idle to prophesy what attitude will be taken by the United States, until the presidential election has determined the general line of American policy for the next four years. The declaration of Senator Borah, a particularly good diagnostician of the workings of the popular mind, is, however, significant. It seems to mean that American opinion is moving towards debt revision as a necessary measure for meeting the crisis, but is not disposed to accord it unless some satisfaction is given to the American demand for disarmament as embodied in the "Hoover Plan." That is not an unreasonable attitude. It is not sufficiently realised in Europe that if the United States Government cancels or scales down the war debts, the American taxpayer will have to shoulder them. This may have seemed a bagatelle for the richest country in the world at the height of its prosperity. It is a different affair since the national income has sunk by some 20 billion dollars in the last two years. No doubt a moderate rise in the price level would very quickly bring into the American Treasury far more than the war debts are worth, and even to cancel them would be a very paying proposition, if it were to promote the revival of trade, as most people expect. But this is an economic speculation, which may look doubtful to the man in the subway, whereas it seems to him eminently fair that other countries should agree with Mr. Hoover's proposals to lighten the general burden of taxation by substantially reducing armaments. In this way the American taxpayer might obtain some relief which would counterbalance the additional burden he would be called upon to assume. That is an idea which he can readily understand, and to which it is not easy to find a convincing answer.

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In these circumstances it is particularly unfortunate that the Disarmament Conference has adjourned in very unsatisfactory conditions. The resolution which was finally adopted provides no certainty that any effective measure of disarmament will be secured, and the negative attitude towards it adopted both by Germany and Italy is intelligible enough, whether it be thought helpful and wise or not. If this country had given a stronger and more definite lead at any time in the proceedings, a different result might almost certainly have been achieved. It was left to Mr. Hoover to do that, and when his proposals stimulated the Conference into fresh activity, it seemed that the British effort was mainly directed towards blurring its outlines and dissolving its substance in streams of tepid water. If some real advance had been made towards accepting the American scheme, not only would the solution of the debt problem and, therefore, the ratification of the Lausanne Convention, be much nearer than they are at present, but the state of Europe would be far less disquieting. General von Schleicher would not have had the opportunity or felt the necessity of demanding the re-armament of Germany had some solid progress been made at Geneva, and no one acquainted with the present German mentality can doubt that, failing the real disarmament of others, on land and on sea, the re-armament of Germany will be begun. The demand for *Gleichberechtigung* (equality of status) is now overwhelming. Its justice was recognised by the Prime Minister during the Lausanne debate. It can only be met in two ways, of which only the way of disarmament points unequivocally away from war.*

The moral effects of Lausanne, therefore, which the Foreign Secretary very properly emphasised, were seriously prejudiced by the failure at Geneva. The renaissance of a

* A speech by Mr. Stimson to the Council on Foreign Relations in America on August 8 should reassure nations afraid of aggression. In view of its great importance we set it out in the appendix.

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better spirit between France and Germany has apparently been nipped in the bud once more. It is easy to blame the oratorical excesses which the German elections, like all other elections, have provoked ; but whether there had been an election or not, the same stand on armaments must have been taken by whatever German Government was in power. As a consequence the return of confidence, which was generally expected to flow from the settlement of the reparations question, has not been noticeable on the scale that most people hopefully anticipated. Until the Lausanne Treaty is ratified that can hardly be expected, and it is doubtful whether its ratification can be secured unless the Disarmament Conference achieves tangible results in the meanwhile. The ex-Allied Powers will not ratify, unless they get a satisfactory arrangement with the United States, which American opinion is more and more likely to link with the reduction of armaments. It is even possible that Germany will not ratify, unless some recognition of her claim to equality is given. The outcome of Lausanne is, therefore, not quite so encouraging as appeared at the first blush of agreement after the breakdown of so many international negotiations. But when all this has been said, there is no doubt that it constitutes an invaluable and indispensable starting-point. Without it nothing could have been done. With it, debts, disarmament and all the thorny problems to be set before the World Economic Conference in the autumn become tractable and, therefore, ultimately soluble. We may be truly thankful even if the mercy was smaller than we expected.

With this one important point gained, what of the other essential ingredients to recovery ? Central Europe is the subject of full treatment in another article. It is not a reassuring picture. Distress and disorganisation are making rapid headway. The channels of economic life are being slowly silted up. Austria in the slough of her despond revolts against a loan, which has been offered, because it is felt to be a palliative, subject to humiliating

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conditions. This, too, is a sign of the times. In England and France it is much too readily assumed that in central Europe the great mass of the population is still as comparatively comfortable and contented as are the British and French working people in spite of widespread unemployment. Such an assumption is quite unsound. Misery has cut so deep both in town and country that the ordinary canons of reasoning are always liable to be overthrown by desperation, which may produce incalculable consequences. A few weeks ago the sober mining population of Belgium broke into spontaneous revolt, led by their women, because the constant reductions of wages and the growing insecurity of employment had made life intolerable. In forty-eight hours the country was on the verge of a general strike, which was only averted by the capitulation of the employers and the Government. The Belgian outburst is a symptom not to be ignored. The process of deflation may be economically sound, but socially it is quite impracticable. Hardships which have been borne for two winters may not be borne for three. There is a breaking point somewhere, and it appears to have been nearly reached, not only in parts of Europe but also in parts of America. The veterans and the Belgian miners may find many imitators in the next few months, unless some hope of improvement can be confidently held out.

Fortunately the prospects are not altogether devoid of hope. Recovery must in any case largely depend on the internal situation of Great Britain and the United States. There are some signs that the action of the American Government in balancing the budget, re-establishing confidence in the banking system through the Finance Corporation, and restoring a part of their purchasing power to a proportion of the millions out of work through federal grants for relief and public works is already beginning to produce its effects. It is too early yet to be sure, but the improvement of the stock-market, the tentative rise in commodity prices and the commencement of a return of

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hoarded money to the banks are all symptoms which may herald the onset of convalescence. If the advance is maintained in the United States, it is bound to influence the rest of the world and make the solution of all its problems easier. Similarly the restoration of British financial equilibrium and the success of the Conversion Loan have made a great contribution to laying the foundations of new confidence, even though the fruits of protection have been much less abundant than the advocates of tariff reform foretold.

It may be, therefore, that the World Economic Conference will meet towards the end of the year under far more promising conditions than seemed likely when it was planned in July. In any case, however, it will be faced by formidable problems, which must be solved, if the world is to regain anything like its old prosperity. First of all, monetary stability must be restored, for without it commerce can never move forward with freedom and assurance. The restrictions on the purchase of foreign currencies, which are now strangling international trade in so many countries, must be removed. There must be a concerted effort to lower tariffs everywhere, in order that the circulation of wealth may once more irrigate the world, which is now sinking into a condition of stagnation and poverty. All these aims can only be achieved by international action. As the Economic Committee of the League said in its last report, "no one is still under the illusion that it is possible for a country to improve its economic situation simply by means of the unilateral measures which it considers indispensable." That remedy has been tried by every nation, great and small, without affording it the faintest sensation of real recovery. "The figures are there to show that even the defence of the balance of payments, which is the legitimate concern of each country, is only achieved in a small measure, and at the cost of economic depression and a lowering of the standard of living." The only solution is co-ordinated and co-operative action between nations

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on a large scale in both the financial and economic fields. But there is also a further point. There can be no new prosperity unless the numbers of the unemployed are reduced to reasonable proportions. Of this there is no certainty, even if the world's productive and distributive machinery regains something of its old rhythm. The capacity of production has been so rapidly multiplied since the war that far fewer men can produce far more goods than was the case ten years ago. For proof one has only to look at the Census of Production returns for this country. The statistics of France, Germany and the United States are still more striking. Thanks to the machine, which has invaded the sphere of almost every industrial, commercial and agricultural operation, from banking to milking, from road-making to washing, all the goods and services that society has hitherto been able to consume can now be supplied with enormously less human labour. The alternative seems to be either to employ fewer people on active work and maintain the remainder in involuntary leisure at the expense of the State, or to restore to productivity those who are now eating out their hearts in enforced idleness by enabling everybody to consume more. That is perhaps the greatest problem of all. It is not purely economic. It touches very nearly the lives and fortunes of millions of individuals. If no solution for it is found, if when everything has been tried there are still large numbers of idle men loitering in the streets of every industrial city, there will be no real social stability and no real return to prosperity. It will be the last and the most difficult task of the World Conference, upon which so many of our hopes are now pinned.

Speech by Mr. Stimson

APPENDIX

SPEECH BY MR. STIMSON TO THE COUNCIL ON FOREIGN RELATIONS IN
NEW YORK ON AUGUST 8.

Mr. Stimson, the United States Secretary of State, described the implications of the Kellogg Pact, as understood by the United States Government.

The pact, he said, had changed the whole doctrine of neutrality. War was no longer the concern only of the nations engaged in it, but of every nation in the world. The pact had provided a means for mobilising the opinion of the world against war, and although there was no provision in it for consultation between neutrals, consultation was implicit both in the pact itself and in the use which had been made of it in the disputes between Soviet Russia and China in 1929 and between Japan and China in 1931.

The pact, Mr. Stimson said, had set jurists a new problem.* During the centuries which had elapsed since the beginning of international law, a large part of that law had developed from principles based upon the existence of war. War between nations was a legal situation out of which rights and duties had grown, and from which there had developed a doctrine of neutrality, according to which a neutral must maintain impartiality between two belligerents. It was contrary to this aspect of international law for the neutral to take sides between belligerents or to pass a moral judgment upon the rightfulness or wrongfulness of the cause of either—at least to the extent of translating such a judgment into action.

Humanitarianism had brought some modifications of the doctrine of neutrality, but their chief purpose was to produce oases of safety for life and property in a world which still recognised and legalised the destruction of human life and property as one of the regular methods for the settlement of international controversies and the maintenance of international policy.

Owing to mechanical inventions and the revolutionary changes in industrial and social organisation by which they were accompanied, however, communities and nations became less self-contained and more interdependent. The populations of industrialised States became much larger and more dependent for their food supplies upon far distant sources. The civilised world thus became very much more vulnerable to war, modern armies more easily transportable, and their weapons more destructive. The laws of neutrality became increasingly ineffective to prevent even strangers to the original quarrel from being drawn into the general conflict, and in the Great War tangible proof was given of the impossibility of confining modern war within any narrow limits. "It became evident to the most casual observer that if this was permitted to continue, war, perhaps the next war, would drag down and utterly destroy our civilisation."

At the Peace Conference at Versailles the victorious nations therefore entered into a covenant which sought to reduce the possibility of war to its lowest terms. Nine years later, in 1928, came the still more progressive step of the Pact of Paris, the Briand-Kellogg Pact [also known as the Peace

* In connection with the views expressed in the speech, see THE ROUND TABLE, No. 71, p. 461; No. 74, pp. 241-2; No. 75, p. 459; No. 77, pp. 18-19.

Appendix

Pact. In this treaty substantially all the nations of the world united in a covenant in which they renounced war altogether as an instrument of national policy in their relations with one another, and agreed that the settlement of all disputes or conflicts, of whatever nature, among them should never be sought except by pacific means.

"The change of attitude on the part of world public opinion toward former customs and doctrines which is evidenced by these two treaties is so revolutionary that it is not surprising that the progress has outstripped the landmarks and orientation of many observers. The treaties signalise a revolution in human thought, but they are not the result of impulse or thoughtless sentiment. At bottom they are the growth of necessity, the product of a consciousness that unless some such steps are taken modern civilisation would be doomed."

Since war between nations was renounced by the signatories of the Briand-Kellogg Treaty, it has become illegal throughout practically the entire world. "It is no longer to be the source and subject of rights. It is no longer to be the principle around which the duties, the conduct, and the rights of nations revolve. It is an illegal thing. Hereafter, when two nations engage in armed conflict either one or both of them must be wrongdoers—violators of this general treaty law. We no longer draw a circle about them and treat them with the punctiliousness of the duellists' code. Instead we denounce them as law-breakers."

"By that very act we have made obsolete many legal precedents and have given the legal profession the task of re-examining many of its codes and treaties."

The language of the Briand-Kellogg Treaty and the enthusiastic statements of its founders, Mr. Stimson continued, had made its purpose clear. "Some of its critics have asserted that the pact was really not a treaty at all; that it was not intended to confer rights and liabilities; that it was a mere group of unilateral statements made by the signatories, declaring a pious purpose on the part of each, of which purpose the signatory was to be the sole judge and executor, and for a violation of which the other signatory could not call him to account."

"If such an interpretation were correct, it would reduce the pact to a mere gesture. If its promises conferred no rights as between the members of the communities of signatories, it would be a sham. It would be worse than a nullity, for its failure would carry down the faith of the world in other efforts for peace."

"But such critics are wrong. There is nothing in the language of the pact nor in its contemporaneous history to justify such an interpretation. On its face, it is a treaty containing definite promises. In its preamble, it expressly refers to the 'benefits furnished by this treaty,' and states that any signatory Power violating its promise shall be denied those benefits. The correspondence of the framers of the treaty shows that they intended it to be a treaty which would confer benefits, which might be lost by a violation thereof."

The only limitation to the broad covenant against war contained in it was the right of self-defence. "This right is so inherent and universal that it was deemed unnecessary even to insert it expressly in the treaty. It is also so well understood that it does not weaken the treaty. It exists in the case of the individual under domestic law, as well as in the case of

Speech by Mr. Stimson

the nation and its citizens under the law of nations. Its limits have been clearly defined by countless precedents. A nation which sought to mask imperialistic policy under the guise of the defence of its nationals would soon be unmasked. It could not long hope to confuse or mislead public opinion on a subject so well understood or in a world in which facts can be so easily ascertained and appraised as they can be under the journalistic conditions of to-day."

No sanctions of force were provided in the pact. It rested upon the sanction of public opinion. "Any other course, through the possibility of entangling the signatories in international politics, would have confused the broad simple aim of the treaty and prevented the development of that public opinion on which it most surely relies," and "which lies behind all international intercourse in time of peace."

Since the ratification of the pact on July 24, 1929, the United States Government had been determined that the new order represented by it should not fail. In October, 1929, President Hoover had joined with Mr. MacDonald in a joint statement at the Rapidan in which they declared that both their Governments resolved to accept the Peace Pact "not only as a declaration of good intentions, but as a positive obligation to direct national policy in accordance with its pledge."

In the summer of 1929 hostilities threatened between two signatories of the pact, Soviet Russia and China, in Northern Manchuria. The United States Government at once communicated with the Governments of Great Britain, Japan, France, Italy, and Germany, and the attention of the Governments of Soviet Russia and China was formally called to their obligations under the pact. Later, when Soviet forces had crossed the Manchurian boundary and attacked the forces of China, 27 nations associated themselves with the United States in urging upon Soviet Russia and China a peaceful solution of the controversy between them. "The restoration of the *status quo ante* was accepted by both parties and the invading forces were promptly withdrawn."

In September, 1931, hostilities broke out between the armed forces of Japan and China in the same quarter of the world, Manchuria, and the situation was brought to the attention of the Council of the League of Nations. "We were invited to confer as to the bearing of the Pact of Paris upon the controversy. We promptly accepted the invitation, designating a representative to meet with the Council for that purpose; and the attention of the two disputants was called to their obligations under the pact by France, Great Britain, Germany, Italy, Spain, Norway, and the United States."

The United States Government maintained its attitude of sympathetic co-operation with the efforts of the Council, and finally, when, in spite of these efforts, Japan had occupied all of Manchuria, it formally notified both that country and China, on January 7, 1932, that it would not recognise "any situation, treaty, or agreement which might be brought about by means contrary to the covenant and obligations of the Pact of Paris." This action was endorsed by the assent of the League of Nations, at a meeting in which 50 nations were represented.

These successive steps could not be adequately appraised unless they were measured in the light of the vital changes of point of view brought about by the covenant and the pact. "They were the acts of nations which were bound together by a new viewpoint towards war, as well as by a covenant

Appendix

which made that viewpoint a reality. . . . Under the former concepts of international law when such a conflict occurred, it was usually deemed the concern only of the injured party. The others could only exercise and express a strict neutrality alike towards the injured and the aggressor. . . . Now, under the covenant and the Briand-Kellogg Pact, such a conflict becomes of concern to everybody concerned with the pact. All of the steps taken to enforce the treaty must be judged by this new situation."

"The power of the Briand-Kellogg Treaty cannot be appraised unless it is assumed that behind it rests the combined weight of the opinion of the entire world, united by a deliberate covenant which gives to each nation the right to express its moral judgment." But when moral disapproval becomes the disapproval of the whole world, it takes on a significance hitherto unknown in international law. For never before has international opinion been so organised and mobilised.

Another phase which followed this development of the Briand-Kellogg Treaty was that "consultation between the signatories of the pact, when faced with the threat of its violation, becomes inevitable. Any effective invocation of the power of world opinion postulates discussion and consultation. As long as the signatories of the pact support the policy which the American Government has endeavoured to establish during the past three years of arousing a united and living spirit of public opinion as a sanction of the pact; as long as the course is adopted and endorsed by the great nations of the world who are signatories of the treaty, consultation will take place as an incident to the unification of that opinion.

"The course which was followed in the Sino-Japanese consultation last winter shows how naturally and inevitably consultation was resorted to in this effort to mobilise the public opinion of the world. The moment a situation arose which threatened the effectiveness of this treaty, which the peoples of the world have come to regard as so vital to their interest, practically all the nations consulted in an effort to make effective the great peaceful purposes of the treaty.

"That the pact thus necessarily carries with it the implication of consultation has perhaps not been fully appreciated by its well-wishers who have been so anxious that it be implemented by a formal provision for consultation. But with the clarification which has been given to its significance by the developments of the last three years, and the vitality with which it has been imbued by positive construction put upon it, the misgivings of those well-wishers should be put at rest. That the American people subscribe to this view is made clear by the fact that each of the platforms recently adopted by the two great party conventions at Chicago contains plans endorsing the principle of consultation."

"I believe," Mr. Stimson concluded, "that this view of the Briand-Kellogg Pact which I have discussed will become one of the great permanent policies of our nation. . . . It is a policy which combines the readiness to co-operate for peace and justice in the world, which Americans have always manifested, while at the same time it preserves the independence of judgment and the flexibility of action upon which our people have always insisted. . . . It is only by continued vigilance that the treaty can be built into an effective living reality. The American people are serious in their support and valuation of the treaty. They will not fail to do their share in this endeavour."—(*The Times*, August 9, 1932.)

THE FUTURE OF INDIA

I. FORWARD OR BACKWARD

AMID the dark clouds of communal rivalry, political faction and civil disobedience, the caravan of Indian constitutional advancement has pushed steadily forward. Now it is crossing a frontier, the border-line between examination and action. The demarcation is not sharp, for whereas investigation must continue even while its results are being put into practice, the period of action has already begun with the establishment of the North West Frontier Province as a governor's province and with the steps taken towards the separation of Burma. With those exceptions, however, we are still in the stage of exploration and of the enunciation of general principles; and, provided haste is not confused with speed, the faster we can press forward the less time will there be for the development of rancour and faction. The path has not come to the cross-roads; we have only two choices: to go forward or to go back. The time has passed when it was possible to envisage a mere retention of the present limping diarchical constitution. The alternative to constitutional advance is the reinforcement of military autocracy, a perpetuation of the regime of ordinances on the one hand, and on the other of civil disobedience and terrorism. Such a course would cost us lives and treasure, would call our good faith in question, and would augment the antagonism of political India—a growing portion of the population—whose demands must sooner or later be satisfied. For India herself

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the choice lies, as we have often repeated, between constitution and chaos. If she heeds the voice of the Congress extremists, she has nothing before her but disorder and civil strife ; repression itself could not be continued for ever.

We must, therefore, continue to move forward with as rapid steps as we can, steps which may be either careful and orderly or uneven and unintended. Sir Samuel Hoare's statement on June 27 made it quite clear that the British Government have decided upon a deliberate and not a haphazard progress. The programme that he then laid down may be summarised as follows. After the decision of the Government on the communal problem, the Consultative Committee would reassemble in India and continue to advise on the numerous and important questions entrusted to it. One gathered from the reference to its " final session " that the work of the Consultative Committee would terminate at that stage. Next, the British Government would put forward a definite but not an irrevocable scheme of constitutional reforms, which would be submitted to a joint parliamentary select committee. Provision would be made not only for Indians to give evidence before the committee, but actually to assist in its deliberations. On the basis of the committee's work, a single Bill would then be introduced covering the whole constitutional scheme, that is to say, both provincial autonomy and the institution of responsibility with safeguards at the centre of an all-India federation. Presumably consideration of the Bill would be entrusted to virtually the same select committee as had sat before its introduction. Sir Samuel Hoare gave no dates, but it is clear that the formulation of the Government's draft proposals could not take place before December, nor the introduction of a Bill until, let us say, April, 1933.

To the diehard, of course, this is only to map out a descent of the Gadarene slope, but the really dangerous criticism of the scheme comes from other quarters. The

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official Labour party's complaint—and it unfortunately appears that they are joined by a number of Indian politicians who co-operated with the Round Table Conference—is that the method of free and equal consultation with India has been abandoned in favour of the objectionable "Simon Commission" method of external deliberation and decision. This criticism appears to be based, in the first place, on a misunderstanding of the British Government's intentions, which include the continuation in being of the Consultative Committee so long as it appears to have a useful function to perform, and direct conference with Indian opinion by the parliamentary select committee. Indeed it is obvious that the repetition of full Round Table Conferences has nothing to offer but delay; they were invaluable so far as they went, but they can go no further unless the goal is inaction. Continuous direct consultation with Indian opinion by Parliament—which has ultimately to decide—is, moreover, barred by geography if by nothing else. The second line of criticism is directed against the inclusion in a single measure of constitutional changes in the provinces and at the centre. From the one side comes the plea that this prevents the plan of advancement at the centre from being tested by the experience of provincial autonomy, which would train up India in the ways of self-government. And the opposite faction complain that the proposal delays any constitutional advance until all the obstacles to federation—and they are many—have been overcome. But this is, in fact, a matter on which we have no choice. Not only are we pledged to endeavour to proceed by "one all-embracing Statute covering the whole field,"* but it is quite clear that even the moderate political parties in India would be prepared to boycott provincial autonomy alone. Moreover, the Government have stated that the single measure is to contain provisions enabling

* See the Prime Minister's statement at the conclusion of the second Round Table Conference. (Cmd. 3972, p. 5.) Also Sir S. Hoare's speech on June 27 (House of Commons Debates, vol. 267, No. 120, p. 1499).

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the provincial constitutions to be introduced without necessarily awaiting the completion of all the steps required for the actual inauguration of federation.

There is, however, one vital question to which the Secretary of State did not offer an answer—What is to be done with the political prisoners? He legitimately congratulated himself on the reduction of their number that was taking place, but even if they were only three thousand instead of thirty thousand the problem of their existence would not be solved. At some time their return to the normal civil and political life of India must be accomplished; on the other hand, political turbulence and attempts to destroy government altogether cannot be allowed to hinder constitutional progress. The best course for the Government to adopt seems to be as follows: As soon as definite constitutional suggestions are published—before, that is, the actual introduction of the requisite Bill—the ordinances should be lifted, except those necessary for defence against terrorism, and a general political amnesty granted. The resumption or continuance of civil disobedience, it would have to be made clear, would be the signal for a return to the present régime.

Such a measure should be taken by the Government of India as an act of grace, not, under any circumstances, as the result of a compromise or bargain with the Congress party, which cannot be treated as if it represented India. On the other hand, in formulating the draft constitution, it will be essential for the Government to remember that it must somehow secure the co-operation—at worst the passive non-acquiescence—of some part of the greatest, indeed the only popularly organised, political party in India.

Practical Problems

II. PRACTICAL PROBLEMS

IN more than one way, from the point of view of Great Britain, this is clearly the most difficult stage of all in India's constitutional transition. Her responsibility for the actual government of India remains unimpaired, while at the same time constitutional changes must be put in hand which weaken her authority in India and are bound to cause civil controversy and even violence. Her responsibility for the constitutional changes themselves can no longer be delayed or shared by the expedient—necessary in the earlier stages—of round table discussion. Moreover, the vital problems which that discussion exposed, but did not solve, have got to be dealt with.

The first of those problems is that of communal rivalry, which has inevitably grown worse as the moment for the assumption of self-government by India has drawn nearer, and which may become still more desperate before the new constitution is inaugurated. The communities themselves utterly failed to reach an agreement—and indeed their several "minimum demands" were mutually inconsistent. In consequence, the British Prime Minister had to take upon himself the responsibility of deciding upon a provisional scheme, so as to prevent the progress of the constitutional reforms being impeded.*

The second of the great problems that have now to be faced is not one to engender murder and riot, but its solution is no less important and may prove no less difficult than that of Hindu-Moslem rivalry. The whole scheme of India's constitutional development is based on the idea of an all-India federation, including British India and the native States; if that idea fails, we are back at the stage at which the first Round Table Conference opened, that is to say, back to a promise of evolution towards dominion status

* See the summary of the Government's decision at the end of the issue.

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but with no means of carrying it out. The attitude of the Indian Princes, on which thus the future of British India depends, has since fluctuated with circumstances and with the power of personalities among them like the Maharajah of Bikaner or the Nawab of Bhopal. Somehow they have to be persuaded, quickly so that constitutional changes may not be delayed a month longer than is necessary, to make federation a reality. It is a condition, said Sir Samuel Hoare in the House of Commons on June 27, of the inauguration of the federal constitution that the units concerned must be prepared actually to federate. As there is not in contemplation a dual system of federated plus dissenting members, the Secretary of State's pronouncement might be interpreted as meaning that any single third-class ruler could have a *liberum veto* on federation, but, in fact, if the leading States were co-operating none of the smaller ones would choose to stand out. It is ten or a dozen of the chief potentates who must be satisfied. Now the Indian States are not being coerced into federation against their will. They want federation for two main reasons: first, because they see as inevitable the evolution of British India towards a greater and greater measure of self-government, which they want to have a hand in shaping, so that it does not become a menace to themselves; and second because they are aware of the gradual growth in importance, as part of the machinery of government, of matters like public economic services and customs tariffs, which are already under the control of the Government of India and which they would like to influence themselves. These are powerful motives on which one can rely for a general willingness of the Princes to come into the new scheme. All they ask is a guarantee of their independence in non-federated matters, and of the maintenance unimpaired of their direct relations, by treaties and sanads, with the Crown. There is no reason why these requests should not be granted, provided that on our side certain general conditions were fulfilled. The guarantee must not make of the British Government a

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barricade against normal constitutional progress in the States or a prop for effete or misgoverning dynasties. Second, if the direct relations of the Princes with the Crown are to be preserved, there must be some constitutional machinery for conducting them and for carrying out the guarantee of State rights. It is plain that neither a government department in Whitehall, even further cut off from the current affairs of India under a régime of semi-autonomous federation than it is to-day, nor the Viceroy in Federal Council, would be competent here. The King, it seems, would have to be represented by the Viceroy in non-Federal Council, advised jointly by the Princes themselves, by representatives of British India, and by the Imperial Government—a division of responsibility which would only be possible if in the last resort the British Government's word were supreme.

That, indeed, is a general constitutional problem not confined to the question of the Princes' relations with the new Indian State. Certain guarantees will have to be given—to minorities, to civil servants and others entitled to pensions—and during a transitional period of indefinite duration further reservations and safeguards will have to be provided. In the general conclusions of the Round Table Conference, the Viceroy and Governor-General appears as the instrument of these functions, but it is clear that he cannot perform them in his individual capacity as representative of the King, and thus constitutional head of the All-India Federation. The Governor-General, in respect of all his duties, must have constitutional advisers. At present he is advised by the Secretary of State (through whom he is finally responsible to His Majesty) and by his Executive Council in India; but under the new circumstances he plainly cannot be advised by his Federal Council on matters reserved from the autonomous federation, nor by the India Office at home, whose control is even now more distasteful to Indian opinion than that of the Government of India itself. A third alternative, that he should be

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advised in his exercise of these important residuary powers by a group of British civil servants and non-official Europeans is obviously equally out of the question. Thus one of the critical problems with which the British Government and the Select Committee will be faced in the next few months is to provide means whereby such part of the present functions of the Government of India and the Secretary of State as are not to be transferred fully to an Indian responsible government can be performed without, on the one hand alienating Indian public opinion, or on the other virtually abandoning the safeguards and reservations.

III. THE DIFFICULTIES OF FINANCE

THIS problem is raised in a very acute form in connection with public finance. For the time being there must be some form of financial safeguards, if only those inalienably associated with the political reservations. Two vital questions have thus to be answered: how are these financial safeguards to operate, and how in the light of them is financial responsibility for the residue to be made a reality and a concession of value? The latter is perhaps the most important question of all, since no mere constitutional device will solve it, and the whole constitutional system will break down if it is not solved; yet it has been curiously neglected. Diarchy cannot be said to have failed, since no one has propounded any alternative form of constitution which could have brought India through a dozen such years as those since 1919 with equal success, but it has creaked uneasily, above all because the transferred subjects were necessarily stinted of money, and the legislatures were not in a position to raise more. Political and administrative autonomy tended to be dwarfed by financial subservience. Yet those, compared with the present, were prosperous years; how much worse, then, is the position at a time of deep economic depression, which

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has struck India, a primary producing country with a vast load of agricultural debt, as hardly as any other land. Unless there is a big rise in prices and a general betterment of trade conditions, we run the risk of handing over with the government of India the choice between a sequence of budget deficits and the bitter process of economies—plus tax-raising—than which there could be no surer guarantee of political turbulence and constitutional breakdown.

The magnitude of the problem must be realised. India is a land of teeming millions, all but an insignificant minority of them living at a standard of life which we should regard with horror among our own people; large incomes are few, and her taxable capacity is very low. The ancient system of land revenue, for centuries the foundation of India's fisc, has become quite inadequate to support the modern machinery of government and the social services that she demands with increasing determination. Even on the assumption that the present depression will end and that there will follow a period of reviving trade accompanied by a gradual increase of prices, the Federal Finance Committee (which reported last March) calculated that the combined prospective deficits of the provinces would total nearly 4 crores (£3 million). Even their scheme for the distribution of 5 crores of income tax proceeds among the provinces would leave three of them (Bengal, Assam, and Bihar and Orissa) with prospective deficits. In these circumstances the kind of strict financial safeguards that was in question at the first Round Table Conference—the reversion, for instance, into the hands of provincial Governors of certain administrative and fiscal powers in the event of the continuance of budget deficits—seems rather out of the picture. It must be remembered, too, that the provinces are responsible for the "nation-building" heads of public expenditure to which political attention is bound to be more and more devoted. Of Bengal, one of the centres of agitation for Indian self-government and social advance, the Federal Finance Committee write that its

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prospective deficit, after allowing for possible economies, "can only be wiped out at the expense of other provinces, and even so the presidency would be left with no margin for financing new policies."

When we turn to the centre the position is no more hopeful. On the basis of existing taxation the Federal Finance Committee forecasted a future surplus (on the assumptions as to economic recovery mentioned above) of 4½ crores, but this would be more than wiped out by the contributions to provincial revenues from the yield of income tax. The imposition of an excise tax on matches would leave the centre with an estimated surplus of 2 crores (£1,500,000), a margin which the Committee deemed barely sufficient to cover contingencies such as the inevitable cost of installing the new constitution. The problem of federal finance is not, however, primarily the same as that of provincial finance—expanding outlay coupled with inadequate and inelastic revenues—but rather the problem of the vast first charge on the central public income. Of the 80·1 crores (£60,075,000) of expenditure provided for in the Percy Committee's forecast of the federal budget, as much as 47 crores (£35,250,000) would go to the military budget, 17·75 crores (£13,312,500) to debt services (mostly sterling debt), and 2·65 crores (£1,987,500) to pensions (also payable for the most part in sterling).^{*} These items total 84 per cent. of the whole estimated expenditure of the federal government, excluding grants to self-governing provinces. That is, of course, a misleading way of stating the position, since in all federal systems, in the United States for instance, those are the principal charges on the central revenues, the greater part

^{*} The Indian States Enquiry Committee (Financial) estimate that their recommendations would impose on federal revenues an ultimate gross burden of approximately Rs. 1 crore per annum, additional to that borne by the central revenues of the Government of India to-day, though this figure would be liable to a substantial reduction if certain proposals of the Committee with regard to set-off and immunities are adopted. (Cmd. 4103, p. 179.)

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of general administrative expenditure falling on the units, and since the self-balancing revenue and expenditure of State enterprises (posts and telegraphs and railways) have been excluded from the total budget ; but the point is that from the standpoint of the Indian legislatures these items, are, for one reason or another, unalterable. Moreover, in political affairs it is often what things seem rather than what they are that counts, and to the Indian politician these first charges on the revenue of the country seem an enormous, and to many an intolerable, burden with which to load a new political venture.

It is the great proportion borne by the expenditure upon it to the total federal outlay that renders the problem of the army so difficult. Indian politicians, always excepting the extreme type, realise and openly admit that India must have an army on something like the present scale, and that so long as the personnel is largely British (as it must be for one reason, because of its part in connection with communal riots), control of the army must remain vested in some way or other in the British Government. There can be no doubt in anybody's mind where the final responsibility for the Indian army must stay, for the present at any rate. But when it comes to providing the money, and when the 47 crores of the Committee's estimate turns out to be nearly 60 per cent. of the federal budget, then the trouble begins. How can these essential supplies be assured ? In general, and without any attempt to formulate precise schemes, there are two possible answers. The first is the assignment of particular revenues for an independent army budget, the surplus, of course, to go into the general funds of the federation ; the second is to impose a fixed guaranteed charge on the general budget, which could in some way be certified by the Viceroy if it were not otherwise forthcoming. In either of those possibilities there are serious disadvantages. The first implies a dual system of tax-collection and fiscal administration, with the attendant wastage of governmental effort ; on the face of

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it, indeed, it is quite impracticable under the existing circumstances of India, since the whole of the customs (the principal source of federal revenue) are estimated to yield only 3 crores more than the cost of the army, which means that in a bad trading year the yield might very well fall far in defect of what was necessary. Nor is Indian opinion likely to accept as a reasonable measure of self-government a constitution which left in British hands the responsibility, let us say, for the customs—including the vexed question of protective tariffs—and the salt tax. As for the second choice, certification is a real power when the whole administrative and financial machinery of government is ultimately under the authority of the Viceroy, and when majorities can be manufactured in the assemblies by means of official blocs; but under a system even of restricted self-government it is meaningless unless it implies the possibility of a virtual resumption of the reins of government by Great Britain.

Expressed in those terms, the problem is utterly baffling. But it is well to remember, in attempting its solution, that if those responsible for the government of India under the new régime were to wish to boycott the army and to oppose by any means the interference of the British Government in their country's affairs, then the most careful constitutional safeguards would be powerless to prevent them. Not merely could they find ways of withholding supply, but by refusing the co-operation of the transferred services (railways and the post office, for instance), they could gravely handicap the ordinary administration of the army in time of peace, and bring it to a standstill in time of war. Thus, if we are talking in terms of reservations at all, and not in terms of complete independence for India, we must assume that the general constitutional system—including the extent of the franchise and the proportion of power given to minorities and to the Princes—will be such that the new Government will be prepared willingly to accept the reservations and will be animated by a spirit of

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general goodwill towards Great Britain and her works. In order to secure that goodwill as regards the army, it is necessary that expenditure be kept within strictly the lowest limits, that indianisation of the personnel be carried on as fast and as far as possible, and that Indian representatives be associated in the closest practicable way with the control of the army. On that assumption, then, there seems little alternative to charging upon the federal budget, by way of a financial settlement collateral with the constitutional reforms, a fixed charge for the army, say 45 crores, which would be reviewed after a period of years and which would have to be regarded as a maximum compatible with continuous efforts at economy.

The problem of the national debt is in some ways simpler than that of the army but it may prove more difficult to solve for a reason unconnected with India's particular constitutional crisis. Owing to the fall of commodity prices in the past four years, almost every government in the world, local and national, is overloaded with debt. If prices are somehow caused to rise again to a level more nearly approaching that at which the debts were contracted, then the problem will doubtless solve itself, and in that case the question of India's debt will not present greater difficulties to the constitution-makers than many another issue. Indeed in some lights India appears much more favourably situated, as concerns national debt, than most other countries. At March 31, 1931, the total debt of the Government of India, after deducting liquid assets, was rather less than 1,183 crores (£887 million), including, *inter alia*, the railway debt and the balance of the war contribution. This is a nominal figure, on which the over-all rate of interest was 4.29 per cent. Against this the Government held assets valued at 1,063 crores (£797 million), chiefly the capital, as debited in the accounts, of the commercial departments of government, but including also interest-earning debts due from the provincial governments, and State and military property generally; and,

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besides, certain assets that defy valuation. The Federal Finance Committee, therefore, was able to report that if the federal government assumed responsibility for the whole of the pre-federation debt its obligations would be covered by the assets also taken over. It must be noted, however, that the valuation of the assets is far from being a commercial one based on yield, and that practically the only identifiable income obtained directly from them is the sum of 5 crores (£3½ million) appearing in the "standard" budget as the net contribution of the State railways, compared with a total net federal interest burden of 17½ crores (£13½ million).

But suppose that prices should continue to fall and that payment in full of the services on the Indian debt becomes impossible, what would then be the position?

There has been more than one official statement with regard to India's credit. Mr. Ramsay MacDonald (in the House of Commons on June 26, 1931) made one about the transition period. It will not, he said, be possible to introduce the proposed constitutional changes if financial stability is not assured, and "His Majesty's Government is determined not to allow a state of things to arise which might jeopardise the financial stability and the good government of India, for which the Secretary of State is at present responsible." He undertook—

if the need arose, to apply to Parliament for the authority necessary to enable them (the British Government) to give financial support under suitable conditions to the Government of India for the purpose of maintaining the credit of the country pending the settlement of the constitutional problem and the formulation of provisions which will ensure the maintenance of India's credit in the future.

As regards the future then, after the new Indian Government has assumed control, our duty would seem to be fulfilled when we have embodied in the constitution provisions of the kind contemplated. But the question still remains, what is to be the nature of these provisions, and must they include safeguards? Mr. MacDonald was

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referring to Indian credit generally, but on the specific question of Indian sterling loans we have the view of the former Secretary of State for India, Mr. Wedgwood Benn, in a letter* to a correspondent, at the time when uneasiness was caused by the wild talk at the Congress meeting at Lahore. This letter pointed out that "Indian sterling securities, while issued under the authority of Act of Parliament and charged on the revenues of India, are not guaranteed by the British Government." They are trustee stock, but that is a separate question. The letter refused to deal with hypothetical contingencies, but, it continued :—

I am directed by him (the Secretary of State) to say that His Majesty's present Government have no intention of allowing a state of things to arise in India in which repudiation of debt could become a practical possibility, and that it is inconceivable to him that, in dealing with any scheme of constitutional change in India, Parliament could fail to provide safeguards, should they be needed, against a breach of the conditions under which these loans were issued.

Safeguards then were contemplated, but of what kind? Those who at the Round Table Conference urged the introduction into the constitution of safeguards in respect of Indian debt services presumably intended to obviate such a contingency as, say, an uncontractual reduction of interest. If India should ever be driven to such special expedients, what would the position be? During the transition stage responsibility and control will still rest with the Secretary of State and Parliament, but the position under the new dispensation is more obscure. In general the Indian federal legislature will then have charge of the budget and the national finances. What form could safeguards take in these circumstances? Would the British Government make good the loss to the bondholders, or will power be retained for it to interfere directly with India's finances in some way, and would the retention of such a power be compatible with the exercise

* See *The Times*, January 28, 1930.

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of the responsible government that we are bound to endeavour to set up in India? Lastly, would we in a similar case be prepared to apply to India measures of recovery such as those already used against the Free State?

These questions have got to be faced, but a more general issue has first to be settled. The political destiny of India is bound up with her economic destiny, and her economic destiny will be determined in part by world forces and in part by her own efforts. As these lines are read the outcome of the Ottawa Conference in concerting measures for the economic improvement of the British Empire, not only through tariff preferences but also through monetary co-operation, will be known. India's part in those measures, however, is bound to remain equivocal until her new constitution is decided upon, for the degree of her freedom in future to choose whatever economic course she pleases has still to be determined. She might wish to cut loose the rupee from the pound, to fix a different sterling ratio, or to remonetise silver. Are her new rulers to be restricted on these vital issues, and if so by what means and with what justification? These are urgent questions to which some answer must be found within the next few months.

OTTAWA: INTERIM REFLECTIONS

BEFORE this is read the outcome of the Imperial Economic Conference will long have been known.* Even with difficulties and divisions as sharply in the foreground, as they are after ten days in Ottawa, failure remains as unthinkable as it was when the opening speeches expressed the high hopes of every part of the Commonwealth, though the measure and the kind of success remain in doubt. The issues, at any rate, are clear—the willingness of Great Britain to compromise her foreign trading connections, and perhaps to increase the cost of the necessities of life for her people, by imposing, increasing or maintaining tariffs on foreign imports of primary products, among which meat presents the greatest difficulties; the willingness, on the other hand, of the Dominions to weaken the established position of some of their industries by substantially liberating the trade in manufactures within the Commonwealth; the clash of interests, on the monetary side, between those countries whose advantage lies in the maintenance of a high or at least a stable relation of exchange with gold standard currencies, and those for whom the raising of prices, accompanied if possible by stability within the “sterling area,” must be accomplished somehow even at the cost of greater instability in its outer relations. Whether on the issue of money or on that of tariffs, the British delegation has always one great *arrière-pensée*, namely, the danger of injuring the great and vital intercourse that Great Britain has with foreign countries, in the fields of finance, capital investment, shipping and other services as well as in commodity trade. From the very start Mr. Baldwin made it plain

* This article contains some reflections by a correspondent on the tendencies revealed during the first part of the Conference. We propose to deal with the final results in our December issue.

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that a condition of the enhancement of our tariffs on foreign goods must be a genuine move towards freer trade within the Empire. Mr. Runciman, no doubt, is the pillar of this policy of freer trade through Empire agreements, but he could hardly have expressed it more emphatically than did the Lord President in his declaration on behalf of the United Kingdom Government on July 21, nor is there any reason to believe (*pace* the journals of Lord Beaverbrook, whose outrageous attempts to interfere in the Conference have shocked the assembled representatives of the Empire) that the British delegation has ever been divided on the subject.

It is upon that sandbank that the Conference has, for the moment, grounded, as this is being written. After the first expressions of national policies had been pronounced, the early days of the Conference have been occupied with the emergence of the Dominions' requests for help from the Mother Country, sometimes singly, sometimes in concert, upon wheat and meat and timber and tobacco and fish and fruit and base metals and many other of their products, by way of tariffs or quotas or a ban on imports from specially damaging competitors like Russia. This procedure, though doubtless inevitable, has been unfortunate in that it has put the United Kingdom representatives in the position of saying nothing or no, in the apparent absence of any complete policy of their own or any firm offer to the Dominions. But Great Britain's plan at this stage could not have been certain or complete, since her ability to grant the Dominions their requests must depend on their willingness to accord her manufactures more liberal entry to their markets, and since the Dominions themselves have been reluctant to propose concrete suggestions on that point. The improvement of trading conditions that Great Britain asks in respect of manufactures cannot be contained in a simple formula comparable, for instance, with a 20 per cent. preference on butter. Many hundreds of groups have to be considered,

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and naturally the conditions of their import and internal manufacture vary enormously between the different Dominions. Four or five months ago schedules of commodities which the British Government, advised by its experts and the representatives of industry, thought might be exported in greater quantity to Empire countries were circulated to the Dominions, but replies have been extremely tardy and even now are only just being presented; hence the absence, at this stage, of any specific and detailed British plan to match the Dominions' simple requirements.

The avoidance of bargaining which many hoped would characterise this Conference could not, of course, long be maintained in its integrity. What each country can put into the pool of common advantage depends in the last resort on what contributions are to be made by the others. Thus a barter of benefits at once begins, and in making clear its own limiting terms of exchange each country inevitably touches upon the susceptibilities of others. Mr. Bruce, for instance, in arguing with some acerbity that so far Great Britain had given the Dominions no more than a reasonable return for the trade advantages that they had accorded her for many years, and that, if she really meant to assist them and to secure from them further modifications of their tariffs in her favour, she must grant them more and larger preferences, provoked a sharp retort from the United Kingdom delegation. After showing statistically the advantages enjoyed by the Dominions in the British market, and their consequent favourable balances of trade with the United Kingdom, the statement pointed out that in assessing the value of a preference the percentage of duty charged on the value of the article is of equal importance with the preferential margin. The delegation urged upon the Dominions "that the rates of duty charged should be so graduated as to give the products of the United Kingdom a reasonable chance of competing on even terms, and that the rate of duty against United Kingdom products should be fixed for protective purposes

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no higher than is necessary to give a reasonably efficient industry in the Dominion a fair chance." Unfortunately the voice of reason that is to measure efficiency and the chance of even competition is dim and confused. The extent of protection enjoyed by industry as a whole, through its effect on costs, influences the measure of protection required by any particular industry. Under her system of high protection, for instance, many of Australia's industries barely compete on level terms with British producers in spite of tariff defences which to us seem extravagant. Similarly, no doubt, Canadian manufacturers would claim that their present mead of protection was the least necessary to ensure equal competition with countries with depreciated currencies and lower wage standards. There, indeed, rather than in the food tax issue or in the Russian bogy, lies the real crux of the problem of Ottawa, on which will turn the realisation of its inspiring ideal, the progressive freeing of trade within the British Commonwealth.

Still less of positive decision has been achieved in the first ten days on the monetary side. The most striking feature, perhaps, of the opening speeches was the great importance attached by Dominion spokesmen to this part of the Conference's work. Mr. Coates in particular made it clear that unless by some means the prices of primary products were soon raised, the mere widening of New Zealand's potential markets would be of little value, and he explicitly challenged the Chancellor of the Exchequer to declare a reflationary policy, which would be adopted by the British Government and the Bank of England in an effort to secure the progressive restoration of the price level; while Sir Atul Chatterjee showed unmistakably that not for nothing had India sent out as delegates two of the most outstanding financial experts of the Conference, Sir George Schuster and Sir Henry Strakosch. These two countries would probably be the first in the British Commonwealth to find it necessary to depreciate their

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exchanges relative to sterling as a means of readjusting their internal price systems, if no way were found to raise prices within the whole sterling area. On behalf of South Africa, on the other hand, Mr. Havenga uttered a reasoned and moderate defence of the gold standard, and many of his arguments would apply with equal force to Great Britain, for whom stability of international exchanges, outside as well as within the sterling area, is almost as important as a rise of world prices. At any rate, so far Mr. Chamberlain has not granted the assurance that was demanded of him, refusing to commit Great Britain to a measure of inflation which it might prove impossible to carry through without an excursion into unsound public finance. One reason for this refusal is reputed to be the fear that a rise of prices in Great Britain would be blamed on protection, but there is a sounder argument in the uncertainty at this moment as to what is to be the course of monetary events outside the Commonwealth. Money is flowing into the United States, where security prices are rising and where there are signs of a revival of public confidence and purchasing power. An inflationary development in the greatest gold standard country might change the whole face of monetary circumstances, and the possibility of it fully justifies present caution. It is at once a handicap and an advantage that the Ottawa Conference is taking place at a time of such disturbed economic conditions. Decision is rendered the harder, but the necessity of brave decisions is the more keenly brought home to every responsible statesman.

Ottawa.

July 30, 1932.

THE TRAGEDY OF JAPAN

FEW countries have been so profusely described as Japan, and few so profoundly misunderstood. A country so remote naturally invites attention, but usually it stimulates the pens of those writers who deal in the picturesque, the mysterious, or the startling. It is true that her intricate language and strange history form a barrier against easy comprehension; but her situation is clear enough to those who will take the trouble to examine it without prejudice, and to pay attention to processes rather than to isolated and often transient phenomena. It is for this reason that, in the following pages, an attempt has been made to relate present cultural conditions to past history, and to show how those conditions may react upon foreign policy.

I. THE EFFECTS OF SECLUSION

WE do not know very precisely the composition of the Japanese race, but we can be pretty sure that it includes Mongolian, Polynesian and (through the Ainu) Caucasian elements, a blend surely without parallel in ethnology. One would expect a people with such a racial heritage to play an important part in the world's history, a part determined by vigour and versatility; and yet, looked at with an unromantic eye, their progress through the centuries may be read as a tragedy rather than a triumph. Such an unexpected destiny cannot be simply explained, but there can be little doubt that the history of Japan has been in a large measure determined by her geography. Given such promising racial material, those temperate islands ought to have nurtured a people fit for every adventure of the body and the spirit; but, remarkable as their achievements have been, it seems that their free growth

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has always been thwarted by their topographical relationship to the Asiatic mainland.

The early recorded history of the Japanese shows us at the dawn of the Christian era a fairly homogeneous people composed of loosely organised clans ; if not pugnacious, certainly warlike ; not barbarous, but culturally somewhat backward, and depending for their cultural advance upon knowledge gained from the Asiatic mainland, where the great Han empire was at the zenith of its power. It is to be noted that cultural influence from China could only operate at a distance. The insular position of the Japanese, though it doubtless saved them from the imperialist ambitions of the Han emperors, limited the possibilities of cultural contact. The position of England, an island on the edge of the European continent, has often been compared to that of Japan in relation to Asia. But the analogy is misleading. It is to-day eight hours' steam across the Straits of Tsushima to the nearest point (which is in Korea, and not in China) whereas it is a bare twenty miles across the straits of Dover. The difference is important. Even had the Chinese or the Japanese been better navigators than in fact they were, their intercourse was bound to be thin and discontinuous. So it was in the first few centuries of our era ; and so it remained even when, from about the year 400, Japan, now a centralised State, began to send embassies to the Chinese court, and missions of scholars to acquire new learning. The dangers of shipwreck, the difficulties of language, and perhaps some instinctive fear of the strength and size of China, combined to keep their intercourse on a distant, impersonal footing. There was some going and coming of monks and traders, a certain immigration of experts from Korea, and also, though rather less, from China ; yet, on the whole, there was no real contact, much less a fusion of races or cultures. Contrast this with the experience of England, subject to wave after wave of cultural invasion from different parts of the European continent, and even ruled by monarchs who claimed the throne of France.

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It is not surprising then to find that, though the Japanese earnestly strove to adopt the civilisation of their neighbours, they paid a heavy price for their insulation, for they were thrown constantly upon their own resources, and were in the position of an earnest young man who has educated himself by correspondence, but has been deprived of the stimulus of direct association with other minds. From about A.D. 500 they adopted the Buddhist religion, and soon they took over, almost without change, the administrative system of China, and also applied to their own language the Chinese script. These were remarkable and praiseworthy efforts to improve themselves, for it is to be observed that they availed themselves voluntarily of what China had to offer, and were not at all in the situation of the inhabitants of the British Isles, upon whom one culture after another was imposed by conquering peoples. But, for that very reason, the cultural metamorphosis was never complete. In reading Japanese history up to about A.D. 900, one cannot escape a feeling that the borrowed culture was not assimilated, but laid upon the surface; and that, though in many respects it made for material and moral advance, it acted on the whole as a check to free development. This judgment is confirmed by later history. Most of the borrowed political principles proved unworkable and perished as atrophied forms which only clogged the growth of native institutions. In the end, the conflict between Chinese theory and Japanese sentiment resulted in disastrous civil war and the establishment of a militant feudalism. Perhaps this was an orthodox development which would have taken place in almost any circumstances, an inevitable phase of social evolution; but certainly it is directly traceable to the fact that the imported culture tended to repress the vigorous part of the native character, and that the feudal strife which, with very little intermission, followed from about A.D. 1100 to 1600 was, in essence, a revolt of the Japanese against Chinese civilisation, as it had been transplanted in Japan, its formalism, its pedantry, its general unsuitability to their lively temperament. This is not to

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pass judgment upon Chinese culture, but merely to observe that what the Japanese had borrowed was only certain outward forms of Chinese civilisation, proper to Chinese soil and circumstance, but of necessity diluted and distorted in their passage across the sea. Indeed, it is doubtful whether a culture can be transmitted from a distance ; or, if it can, whether it in truth confers a blessing upon its recipients. Material advantages the Japanese certainly gained from China, such as a knowledge of useful arts, of which writing was the most important, and of Indian and Chinese philosophies. But these they could have acquired without imitation of other Chinese models ; and though we cannot balance imponderable values we may at least conclude that the power and prestige of China obliged the Japanese to take over, along with some profitable knowledge, some very uncomfortable doctrines and customs. The mediæval Japanese seem to have felt uneasy on this score, to have considered that they had, perhaps, swallowed more than they could assimilate. About A.D. 900 they brought diplomatic relations with China to an end, which means that they no longer regarded China as the fountain of civilisation, and thought that they could stand on their own cultural feet. The situation thus created was remarkable, since it showed that the Japanese were attempting to develop in isolation ; truly a bold experiment, if, as we may suppose, a nation, like an individual, cannot grow and flower without fertilising influences from outside. It might be argued that by A.D. 900 the T'ang dynasty of China was nearing its fall and there was nothing which the Chinese could at that time teach Japan. If that is so, then it was all the more unfortunate for Japan, so situated that her only neighbour was unable to provide her with stimulus and example. In point of fact, intercourse between China and Japan did not cease with the cessation of diplomatic relations, for there was some trade, some interchange between scholars ; but, on the whole, it is true to say that for several centuries after the year 900, Japan led a secluded life. During those centuries, her own

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institutions underwent many changes. She modified or replaced many of her Chinese borrowings, she developed Buddhism on peculiarly national lines, and she made creditable advances in the arts; but all her activities were confined within her own borders, and it is not to be wondered at that she thus evolved, by turning in upon herself, a unique, but extremely limited, culture.

The contrast with China is striking. From Han times at latest, that self-sufficient country had been in regular intercourse with western Asia, and in indirect trade relations with Europe, while by the seventh century, Chinese traders and monks had worn ancient tracks overland to India, Chinese vessels had sailed probably as far as the Persian Gulf and Roman envoys had appeared at the Chinese court. It may be true that external influence did little to modify the powerful individuality of Chinese culture, for China seems always to have regarded herself as the centre of the universe, the sole source of wisdom, but equally it may be said that one of the essential characters of her culture was its capacity to absorb and assimilate foreign elements. In this respect her history is one of vast sweep and variety. Its scale is prodigious. The Han empire extends to the Caspian. It crumbles, and China is ruled by Turkic sovereigns in the north. Then follows an age in which Indian religion spreads all over Chinese soil; a new Chinese empire arises. But T'ang China must struggle to defend herself against Arabs in central Asia, and nomadic peoples in the north, and soon she withdraws within narrower frontiers, both physical and intellectual. There follows political chaos, leading to the Sung renaissance of the tenth century, a powerful reintegrating movement, which restores ancient Confucian tradition, but gives it a new life and a new significance. China has regained cohesion. So much so that her Mongol conquerors in the thirteenth century, speedily subdued and chastened by her institutions, serve as a medium for the spread of Chinese culture over the Mongol empire. Soon the Mongols withdraw. The Ming emperors rule China for peaceful

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centuries until their misrule brings the Manchus into power, and from about A.D. 1700 the empire again stretches towards its old distant borders.

This is a history of spacious rhythms, of the ebb and flow of great races; and even if we allow that the Chinese preserved unchanged the essence of their aboriginal culture, we must admit that its shape and substance were determined in a large measure by alien influences, whether they were absorbed or whether they were merely resisted. It is effort, strife, perilous contact with new forces, that gives to a civilisation variety and strength.

To the Japanese these harassing but salutary experiences were denied. Left to themselves, they developed their own metropolitan culture, which was of Chinese parentage, to the point of exhaustion. It was local and partial, and it languished because of its own futility, while the more vigorous elements in the Japanese people spent their energies in civil war. The feudal struggle lasted with brief intermission until about A.D. 1600. During that long period Japan twice came near to entering the main stream of world affairs. In 1274 and 1281 Kubla Khan attacked her shores, and she might thus have been brought within the orbit of the Mongol empire which then stretched into Europe; but the invaders were beaten off and Japan once more withdrew behind her own cultural frontiers. In her subsequent history, it is easy to perceive a certain restlessness, a dissatisfaction with her restricted opportunities. Japanese vessels began to make long voyages, commercial intercourse with Asiatic ports grew closer, and new intellectual currents flowed from China under the Ming dynasty. By 1500, Japan was in a fair way to taking part in world movements which were impelling the ships of Portugal, Spain, the Netherlands and England over all the oceans and bringing distant continents together. By 1550, Europeans had landed in Japan, by 1600 the Japanese knew a great deal about Christianity and firearms; and even a wise prophet might then have foretold that Japan would soon partake in the new world-wide traffic of goods and

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ideas. Yet the prophet would have been wrong. The Japanese had always liked foreign goods, and they had welcomed foreign ideas so long as they might ponder upon them in seclusion. But it was of the essence of this new enterprise that it could not be conducted in solitude. It needed either partners or antagonists; and such conditions were unpalatable to the rulers of Japan. They, after all, had by now reduced the feudal chaos to some sort of order; they were firmly enough seated in the saddle; they had long experience of the arts of government and they may well be excused for concluding, once they had grasped the significance of militant religion and colonial adventure, that they were best left to themselves to exercise their traditional skill. So they paid the price of isolation, and from about 1650 they cut themselves off from the world. It cannot be proved that they made here a great political blunder, though it is arguable that no harm would have come to Japan had she taken the risks of contact with foreign nations. But the effects upon her cultural development were profound, and almost certainly in the long run adverse.

II. THE GRIP OF THE PAST

IT may be argued that their long period of rest and incubation prepared the Japanese for the strain of adopting Western civilisation in the nineteenth century, and it is no doubt true that in the protracted peace which began in 1615 there were stored up reserves of energy which proved of great value when the Japanese decided that they must race after Europe and America. From 1615 onwards they had settled down to ruminate over their own culture, and they had produced little but elaborations of their own refinement. Learning, the arts, government, trade, either languished or uneasily craved new outlets which were denied to them by the restrictions that Japan had placed upon her own development. In the eighteenth century she was both economically and culturally feeding upon herself,

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and she might well have starved in the process had not her own vitality forced her to burst her bonds. It is not surprising, then, to find her from about 1850 ardently adopting the civilisation of the industrialised Occident, and to all appearances rapidly striding towards success. In the common estimation she has to-day so fully and competently followed the Western pattern that she ranks among the strongest of the nations. Yet even her friendliest critics find some ground for misgivings, some reason for wondering whether in truth her development has been so rapid or so sound as it at first sight appears. We need not here consider whether the occidental pattern was worth following, since it seems certain that for good or for evil the industrial society must absorb all types of culture. But it is useful to enquire how far Japan has adapted herself to her new framework. When in 1868 she restored her monarchy and entered the modern world she was heir to a civilisation which was unique but which could thrive only in seclusion. The energy with which she attacked her new problems had been stored up during a long period of quiescence, but that same period was also one of repression, of inhibition as well as of rest ; and perhaps this explains why the civilisation of the industrial Occident was taken over with much vigour and little discrimination.

All the material features of this civilisation were speedily appropriated. Where industry and determination were needed they were forthcoming. Long political experience had enabled the leaders of Japan to provide a background of peace and order for their experiment, and feudal discipline ensured an obedient, laborious populace. It was not difficult to lead in the chosen direction a people so homogeneous in race and so uniform in experience. But to say that their acceptance of foreign institutions was unquestioning is to say that it was uncritical ; and there are many signs to show that the burden which Japan shouldered in those days was heavier than she knew. Once before, in the seventh century, she had taken over the apparatus of a foreign social order and had found by

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experience that she could not make it work. This failure did not seem disastrous because she was then able to cut loose from her teachers, digesting such lessons as she could and rejecting the remainder. But when she adopted a Western way of life, she was bound to keep it up. The choice was final, for our industrial civilisation is born of the traffic between peoples; it is a confederation, however loose and uneasy, and those who are not its members are its slaves. But, with all its flaws, our civilisation has grown logically out of our own history and each people in Europe has contributed something to its present character. There are centuries of European thought and habit behind its simplest manifestations, whether good or evil. Surely the Japanese were undertaking a perilous and difficult task when they set themselves to reproduce that civilisation without repeating the processes by which it was formed? Has not the divergence between their traditions and ours led to inevitable disharmonies in their lives as a nation and as individuals? How and when are these disharmonies to be resolved? These are questions which present themselves constantly to any thoughtful observer of Japanese life, and, though the answers lie hidden in the future, some instruction may be gained from elaborating the questions and relating them to observed facts in the present and the past.

First perhaps comes the problem of the reaction of the individual Japanese to foreign persons and foreign things. A Japanese in intercourse with a European (and here for convenience European may be used to include American) cannot help feeling a sense of racial difference. An Englishman, however insular, knows or feels that another European is of his own stock, and (to take an easy test) has no deep-seated prejudice against, let us say, an Anglo-French or an Anglo-German marriage. But a Japanese must always feel that in intercourse with Europeans it is he who must give up something of his own individuality. He must speak the Europeans' languages, accept their standards, even eat their food and wear their clothes. Usually he is

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very ready to do these things, being rather proud to exhibit his adaptability ; but beneath his courtesy it is not hard to detect an effort, and sometimes even a certain resentment. It is rare for acquaintanceship between a Japanese and a European to develop into intimacy. The barriers are almost insuperable. There is the prime barrier of language, for the number of Europeans with a fluent knowledge of Japanese is negligible and the Japanese themselves are poor linguists. There is the barrier of custom, for the personal life of most Japanese is governed by a habit and a morality often mystifying and sometimes repugnant to the European mind. The Japanese have not yet escaped from the feudal tradition, and the virtues they most admire are those which promote the welfare of the group rather than that of the individual. To a Japanese the European seems loud and egotistical ; to a European the reserve of the Japanese seems a stupid want of frankness and their self-sacrifice on the altar of the family or some larger group often a wanton repression of personality. Their best friends have to admit that the Japanese are lacking in spontaneity, and one who has dealings with them is usually irritated by their caution and secretiveness ; characters which he is tempted to ascribe to slowness of wit rather than to astuteness. Whether these mutual criticisms are valid or not, the fact remains that association between Europeans and Japanese is generally conducted at the cost of strain upon both parties. The reasons for this incompatibility seem tolerably clear. There is very little common intellectual territory. It was easy enough to replace the jinrikisha by the Ford car, but it is not possible in a few decades to substitute for the inhibitions of a sequestered feudalism the European mental habit, which is by contrast speculative, lively, individualist and cosmopolitan. Yet those who have come into contact with Japanese in Europe will probably protest that they have gained an altogether different impression of their character. The Japanese, it will be said, show themselves gay, friendly, nimble-witted, interested in everything. They appear to subscribe

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freely to European standards and to be marvellously at home in their European environment. All this is true. Delightful young men proceed to Oxford or Cambridge, where they lead extremely English lives. Charming diplomats cut an elegant figure in foreign capitals, where they are admired for their social gifts. Scholars attend conferences abroad and make a good impression upon their foreign confrères. Yet when they return to Japan there can so often be observed a gradual lapse. The frankness and the gaiety disappear, to be replaced by grave and formal courtesy. Their environment gets hold of them, they are the victims of a cruel social pressure and they are in the grip of a powerful nationalism. If this is true of those small numbers of Japanese who travel abroad, how slight must be the effect of European culture upon those millions who know it only by hearsay or through its less admirable external features.

The truth is that European culture has touched only the surface of Japanese life, and though it is open to any Asiatic critic to challenge the superiority of European culture, it is extremely doubtful whether any people which chooses to base its life upon mechanised industry and foreign trade can preserve its own culture intact. It is indeed probable that its survival must depend upon the measure of its adaptation to world-wide standards. It may be that a country so vast in bulk, so self-sufficient as China can select from European culture such elements as seem to suit her, and incorporate them in her own economy; but it is very doubtful. Japan, certainly, cannot do this. Her traditional culture, as we have seen, is one which depends upon insulation. It is a delicate forced plant which must shrivel under the rude winds that blow about the modern world. Politically it is already an antiquated survival, a brave attempt to perpetuate the age of myth. The Emperor is of divine ancestry, his subjects are his children, and his statesmen still believe that the people should be obedient and virtuous. They cling to the feudal regimentation of society, they deplore the need to improve the status of

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women, and they shiver at what they style "dangerous thoughts," in other words, at any speculation which may bring doubt upon their existing institutions. It is perhaps one of the gravest charges that one can level against the ruling classes in modern Japan, that they are afraid of new political ideas. There still lingers that timidity, mixed with a certain naïve self-satisfaction, which made them cut themselves off from China in the Middle Ages, and from Europe in the seventeenth century. The exclusionist school is not dead, and a cynical observer might well suppose that Japanese statesmen, when confronted with some European doctrine which is unpalatable to them, are apt to argue to themselves that it does not apply to Japan. This perhaps explains some discrepancies between their public professions and their subsequent acts in relation to such matters as the open door in China, and the Kellogg Pact. Their Foreign Ministers, enlightened men, may have international minds and speak with conviction upon peace and friendship, but behind them are serried ranks of politicians and officials, still in large measure imbued with feudal ideology. It is true that a good case can be made out in defence of Japan's hesitation to subscribe to European doctrines, which can be summarised by saying that the practice of European, and (we may specifically add) of American, statesmen does not square with their professed principles. The West has not in the past set any conspicuously noble example in international affairs, and we cannot boast of success in controlling our economic development, so that the average Japanese may be excused if he concludes that he had better conduct his affairs according to his own practical wisdom, while paying us the compliment of using our jargon. On a short view this is a plausible case. But it leaves out of account the important truth that there are in the Western world strong currents of liberal thought which, though they may not often find expression in political action, are none the less genuine and characteristic of our culture. It is here that Japan is out of touch with Western thought to her own detriment.

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Nobody who knows the Japanese at all intimately will suggest that this deficiency is due to inherent weakness in their national character. It is their unfortunate environment, their position far across the salt, estranging sea, that makes it hard for them to grasp the essence of our minds ; for our tradition reaches back to a Hellenistic origin from which they are as alien as can be.

III. MISTRUST AND MISUNDERSTANDING

CLEARLY it is of importance to the world that their mistrust and misunderstanding of us should be removed. Yet the course of events in the last few decades has tended rather to confirm the Japanese in their feeling that European civilisation has conferred upon them some very dubious blessings and struck them some very hard blows. They might be excused for thinking that they have gained from us little but trains, trousers and trouble, for in retrospect their recent history appears to them as a record of rebuff after rebuff at the hands of foreign Powers. Introduced into the nineteenth century world of struggle for territory, they followed the example of their professors and engaged in war with China, only to have the fruits of victory denied them. They were promising pupils in the science of destruction, and by defeating Russia secured from the world a respect which had hitherto been denied them, and even, ironically enough, a certain patronising approval of their arts of peace. They applied themselves with patient energy to manufacture and trade, and their success was ascribed by the West to dishonesty. Through the adoption of Western technique in industry, and through the benefits of foreign commerce, the growth of population was stimulated till it pressed upon the limits of subsistence. They endeavoured to relieve the strain upon their very restricted domestic resources by emigration and the exploitation of undeveloped lands outside their borders ; and at almost

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every point they were thwarted by foreign Powers. Canada, Australia, South Africa, the United States, exclude Japanese from their territories or subject them to indignities. They strive to maintain their teeming masses by earnings in foreign trade, and tariff walls rise high against them in all their chief markets. They are distracted, they do not know where to turn. East of them lies the United States, their best customer, whom they dare not offend and to whose preaching they must perpetually listen. West of them lies China, overwhelming in size and population—a potential market, it is true, but ever looming over them as a potential danger. Can it be wondered at that Japan, living near the edge of that region of ferment in eastern Asia, tries, however mistakenly, to take advantage of moments when other Powers are preoccupied, to secure what seems to her some firm foothold on shaky ground? Can it be wondered at that the Japanese in general, knowing only the surface of European life and finding it in all but its strictly material aspects not sensibly superior to their own, discount its idealism and regard such organs as the League of Nations as only further apparatus for confounding their policies?

It is for such reasons as those suggested above that we have described Japan's history as a tragedy rather than a triumph. Her situation to-day is one which an Englishman should sympathetically consider. A small island country inhabited by a vigorous race, but over-populated and possessing scanty material resources. The English, by happy fortune, have been able to spread all over the globe, and whatever may be the future of their native land, their character and tradition will continue to influence the development of mankind. Such high destinies can scarcely be reserved for Japan, for her culture is not of the proliferating kind. Nevertheless her people would have much both to gain and to contribute in a world where intercourse was freer, less tainted by suspicion than it is to-day.

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A practical minded reader will exclaim, " But this is mere vague benevolence ! " and he will enquire what benefit we may expect to gain from Japan by according to her different treatment. The question is legitimate, and we must attempt to answer it. Shortly, the reply is that the modern society of nations cannot afford to have the mind of one of its important members poisoned by a feeling of mistrust and misunderstanding. At greater length the question can best be answered by an attempt to appraise some aspects of the national character of the Japanese with a view to showing how they may contribute to the progress of the world at large.

Perhaps the first thing that strikes a student is that the Japanese are not, as a people, given to philosophical speculation. They are sharp observers, deeply interested in the outward shape of things, so that all the external manifestations of European civilisation filled them, in the sixteenth century, and again in the nineteenth, with a restless curiosity and a determination to master the new knowledge. It is for this reason that they have been able in so short a time to make such great material progress. But they have felt no keen desire to explore the intellectual dominions of the West. Their minds never seem to have had a metaphysical bent. When they adopted Buddhism from India by way of China, they paid great attention to its dogma and its ritual, but its philosophic flights, though reverently accepted, were reserved for academic uses ; and the same thing may be said *mutatis mutandis* of their reception of every doctrine they have subsequently imported.

This interest in the immediate, this neglect of the remote, have been lately described in scientific terms by an eminent ethnologist who considers that

the Japanese temperament is essentially " extravert " ; interest goes out immediately to surrounding objects and people, rapid conclusions are formed, allowing the obvious features of a situation to be quickly understood and vigorously handled ; there is little tendency to abstruse meditation or desire to transcend experience by abstract reasoning or to substitute for it ideal constructions.

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From this diagnosis flows naturally an explanation of much that is characteristic of Japanese life to-day. There is little or no blending of cultures, but a confusion, even a conflict. Industrialism at almost every point is hostile to the native tradition. The result, says the authority just quoted, is "a kaleidoscopic mixture which among a less hardy people might be thought to produce an almost intolerable strain." But in truth the strain is almost intolerable, and its evil results are patent. In the home there is a struggle between the family system and the individualism which is encouraged by competitive manufacture and trade. In the school and the university there is a struggle to reconcile the claims of the native culture with Western learning, and the burden upon students has tragic consequences. In administration there is the perpetual difficulty of getting results out of a machine on the Western model run by operatives whose life has a predominately Eastern background, a difficulty visible, for instance, in post offices and railway booking halls, and graver though less obvious in most branches of government. Examples might be multiplied, but these will suffice to show what stresses have been set up in the social and political organism by such incompatible forces. The wonder is that the Japanese have come through the ordeal so creditably. No doubt, in some ways the strife and the effort have benefited them; and in a suitable environment they might evolve from the clash of two cultures an admirable version of their own. But the atmosphere is unfavourable for such an experiment, since their energies must be centred upon the plain problem of subsistence. They have to provide for a population which is growing faster than its means of support, and is denied outlets by the rest of the world.

It is one of the cruel ironies of the modern world that the people which has by general consent best learnt the lessons of its Western teachers is disliked and excluded by almost all the great States. The Japanese abroad are mistrusted because of their virtues, and not their vices.

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They are good citizens, quiet, orderly, industrious, thrifty, and the only valid charge against them is that they tend to gather together in small communities of their own and to live below the standard of the other workers in their adopted country. Even if this charge could be generally sustained, it would not be serious. In the first place, the countries in which Japanese for preference settle, such as the United States, have owed their development in a large measure to imported labour willing to accept a lower wage than the native-born workman. Thus, in laying the first transcontinental railway track Chinese labour was important, while many heavy industries have for long depended on unskilled manual labour from backward parts of Europe. In the second place, it is notorious that where free immigration is allowed, immigrants soon become, from an employer's point of view, only too ready to claim the highest available reward. Japanese emigrants to America in recent years, before they were entirely excluded, never felt secure, and it is not unnatural that they should have remained clannish and aimed merely at saving enough money to keep them in comparative comfort in Japan. But it by no means follows that, if they were admitted freely, or even in agreed numbers, to America or Australia to-day, they would behave similarly. Life in Japan, in many of its physical aspects, tends to approximate more and more to the Western type, so that it is more and more simple for a Japanese to become habituated to existence among Western people. The pressure of population at home, combined with a certain relaxation of traditional family bonds, lessens the pull of their native country upon expatriated Japanese, and it is to-day no uncommon experience to find a Japanese returned from a long sojourn abroad quite ill at ease among his home-keeping compatriots. Altogether, it is probable that, under favourable conditions, the Japanese are among the most assimilable of peoples in the cultural sense.

But it must be admitted that they are not regarded in

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most countries as racially assimilable, if we may use a term to which ethnologists would probably object. There is on both sides a prejudice against the mixture of European and Japanese stocks. Consequently they tend in most countries to segregate themselves in communities of their own, thereby arousing suspicion and dislike, although their behaviour is usually unimpeachable. But given free association and some intermarriage there is no doubt that in countries like Canada or the United States they could be comfortably absorbed in considerable numbers, though in countries with a strongly colour-conscious "white" population, such as Australia, feeling against them would be overwhelmingly strong. In European countries there is no room for them. In tropical countries they probably cannot settle permanently, since they belong themselves to the temperate zone. Altogether their situation, as we have already suggested, is a tragic one. They are not of the East, and the West rejects them. Yet to those who know them well it seems not only that they have much to offer to us, but also that the one thing which they need most of all is free and close association with the West. Their own sequestered life is full of inhibitions, vestiges of not very remote feudal times; but not far below the surface, waiting to be vitalised, are those admirable qualities of a gay, adventurous kind, to which we have already alluded, warm qualities of a Latin type, courage and æsthetic sensibility, which ought to be poured into the common stock of mankind. It is intimate touch with Western minds and temperaments that they require, some real give and take of thought and feeling instead of the mere interchange of counters and commodities which at present constitutes the intercourse between Japan and the Western world. The barriers which stand in the way of such intercourse we have already indicated—distance, language, tradition. But until they are surmounted we cannot expect Japan to subscribe intellectually to European doctrines of conduct for either the individual or the State.

The Tragedy of Japan

IV. A DESPERATE POLICY

PERHAPS this conclusion will provide a key to some of the current and future policies of Japan. First it must be understood that, from the very fact of her long isolation, Japan has no tradition of international politics. Inbred in her ruling classes is an idea that intercourse with foreign nations spells aggression or interference, an idea which her history since the Restoration of 1868 has done nothing to remove. In matters of domestic administration Japanese statesmen have inherited feudal principles. Their fathers or their grandfathers were men of great practical experience in government, conducting affairs according to a highly developed, if limited, social ethic in which fidelity and a disciplined obedience were cardinal. Many of the leaders in public life to-day are acquainted with European social theory only by hearsay, and European social practice, as they observe it, is not so conspicuously superior as to urge them to abandon the doctrines of their ancestors. It should not be inferred from this that they are naturally antagonistic to new conceptions. On the contrary, as has already been made clear, the Japanese have always been interested in any teaching presented to them, for they are curious and eager to learn. But because their group feeling, their nationalist sentiment, is one of the strongest elements in their make-up, they examine all new things with the intention of adopting what seems likely to be useful to themselves, and they are not receptive of general ideas. It will be understood, therefore, that the seemingly occidental fabric of the State in Japan rests upon peculiarly native foundations.* It is true that certain statesmen and publicists in Japan are men whose minds are of a cosmopolitan cast, and who are in sympathy with liberal thought from whatever source it springs; but perhaps by reason of their very excellence, they are out

* See an illuminating article in the *London Times* of January 16, 1932, by its Tokyo correspondent upon party politics in contemporary Japan.

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of harmony with common political life in their own country and their influence is small compared with the influence of those who preserve the narrow and somewhat truculent mentality of the former military class. Those who think on international lines seem, indeed, to have nothing to offer their compatriots, who are, on the contrary, thanks to that "extravert" character described on an earlier page, impressed by immediate and tangible objects. That is why the Manchurian policy of Japan arouses no grave misgivings in the mind of the military party which inspired it or the public who have accepted it. It offers action, results, an outlet for circumscribed national energies. If it is inconsistent with the spirit of international harmony, is Japan any worse off for that than she was before? Can the Powers which exclude Japanese subjects from their own territory be trusted when they profess international amity? Do force and money rule the Western world, or do they not? These are the questions which naturally arise in the minds of the average Japanese, and if we wish them to be answered in a manner favourable to ourselves we must instruct them by example, and not by precept.

Let us, then, briefly recapitulate our somewhat diffuse arguments. They amount to this: Japan internally is in a state of stress, both cultural and economic. The difficulty of reconciling her own cultural individuality with the conditions imposed upon her by occidental civilisation produces a strain both upon the individual and the nation as a whole, which results in a frame of mind leading easily to antagonism towards the West. The difficulty of making ends meet in a poor country forces the Japanese to look abroad for new sources of wealth. But, as we have seen, they are thwarted at every turn. Only in China is there territory which they can perhaps exploit. It is a dangerous remedy for a dangerous situation, and they are well aware of it. They know well that now, as in past centuries, their destiny must be governed by the march of events on the Asiatic mainland. Can they, they ask themselves, and with

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fear rather than with hope, influence those events by their own policies? We do not, perhaps, appreciate what terrors their situation holds for them. Let an Englishman imagine how he would feel if the greater part of Europe were inhabited by one homogeneous people vastly more numerous than his own, with a growing national consciousness, traditionally hostile. Just as the idea of a peaceful European confederation seems, alas, a dream to most European statesmen, so to the rulers of Japan the prospect of an understanding, to say nothing of a partnership, with China seems unutterably remote. It must be admitted that the Japanese have, to their credit, in the last few years tried, however clumsily, a policy of conciliation with China, and have persisted in it under great provocation. It is not only the reactionary elements which have called a halt to this experiment. There are many seriously minded Japanese who regretfully, but quite sincerely, believe that such a policy was bound to fail. They see China rapidly disintegrating before their eyes, and they ask themselves whether their best course is not to strive to save something from the ruins, and to mark out and secure at least one area which they can immunise from the surrounding contagion. It is a desperate policy, but it is intelligible to anybody who will admit that Japan's interests in China are more vital to her than the interests which the Shanghai defence force was established to protect so short a time ago were to England. It is a dangerous policy. Dangerous to Japan, because it tends to revive the prestige of the military caste, to strengthen the waning feudal ideology. Dangerous to civilisation, because it creates one more septic focus in a disordered world.

But we have largely ourselves to blame; and unless there is a considerable change in the attitude of the Western Powers not only towards Japan, but towards one another, we may expect the Japanese to pursue the kind of policy which seems to offer immediate benefits rather than the kind which European nations have so frequently recommended to others and so rarely tried themselves.

IRELAND

I. THE OATH BILL AND THE LAND ANNUITIES

THE development of the Irish situation during the last three months affords little justification for optimism. The issues concerning the oath and the land annuities raised by Mr. de Valera's Government remain still unsolved, and the possibility of their solution seems as remote as ever. The Oath Bill finally passed the Dail on May 19 by a majority of eight votes and was immediately sent to the Senate, where the second reading debate began on May 25. There was much speculation as to the attitude which this body would take up towards the Bill. It was known that some Senators favoured its absolute rejection, whilst others apparently believed that it could be killed by amendment, and that this course was more diplomatic. In the end the Senate passed the Bill, having first deleted sections 2 and 3, which removed the Treaty from the Constitution, and added a new section which provides that the Bill shall not come into force until an agreement has been entered into between the Government of the Irish Free State and the British Government providing that Article IV of the Treaty of 1921, which prescribes the oath, shall cease to have effect and until such agreement has been ratified and approved by resolution of the Dail. This new section was inserted in the Bill by a majority of eleven votes on June 8. The debate in the Senate was on the whole disappointing, and the voting, with one or two exceptions, was on normal party lines. Mr. de Valera's own speech introducing the Bill in the

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Senate was singularly moderate and almost persuasive in tone. He argued that certain articles of the Treaty dealt with the domestic affairs of the Free State, and that owing to the alteration in status that had taken place the Free State had now the same right to deal with these domestic matters on its sole initiative as any other State in the British Commonwealth. The Treaty could not, he said, operate against us for all time when our equal status had been recognised by the British Government. The whole purpose of the Bill, apart from the removal of the oath, was to put the Treaty in its place as an international instrument. Senator James Douglas, replying for the Opposition, pointed out that the Bill raised the whole question of the Treaty obligations, and Mr. de Valera had not told them where it would lead them; that Mr. de Valera had no mandate to take the Free State out of the Commonwealth, either directly or by back-door methods, and that the Senate would see that sufficient time elapsed to enable the people to know where they stood.

The Fianna Fail party naturally object strongly to the situation now created which will force them either to hold a general election at once on this issue, or to wait eighteen months, when the Bill can be passed in spite of the Senate. Senator Connolly, the Minister for Posts and Telegraphs, their leader in the Senate, stated during the debates that if the Senate obstructed the Bill it must be prepared to take the consequences. In other words, one of the issues at the next general election may be the abolition of the Senate, or at least the drastic limitation of its attenuated powers. It would certainly be an ironical result if the Senate perished owing to its first display of courage. One of the most interesting speeches in the debate was made by Senator O'Farrell, one of the Labour Senators, who has a clear and independent mind. Whilst he announced his intention of voting for the Bill out of party loyalty, he believed the Bill to be a breach of the spirit of the Treaty, and considered that a satisfactory settlement could have

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been reached by negotiation if the matter had been dealt with in a normal manner. Failure to enter into negotiations was, he said, a sign of weakness rather than of strength. It was not bravery, but bravado. In the final debate on June 28 Senator Connolly stated that the Government would not accept the Bill, amended and lacerated as it was by the Senate, but would let it go back to the Dail as it stood.

Meantime the position as between the British Government and the Irish Free State Executive had become more clearly defined. In the House of Commons on May 11 Mr. Thomas, Secretary for the Dominions, gave a clear warning what the attitude of the British Government would be towards the matters at issue. The Bill to abolish the oath was, he declared, in direct conflict with the obligations undertaken by the Irish Free State under the Treaty of 1921. Therefore it appeared to the British Government that if it became law it would be unreasonable to expect that they should enter into negotiations with a Government which had repudiated existing agreements for further agreements with regard to tariffs after November 15, when the exemption of the Dominions from the new duties would expire. A few days later Mr. de Valera, replying to Mr. Thomas, denied the right of the British Government to dictate to the Irish people. "A measure," he said, "is being enacted here which is deemed necessary so that normal methods of government replace government by coercion. In what conceivable way can this injure the people of Britain?" So great was the divergence of attitude indicated by these statements that considerable surprise was created by the dramatic statement of Mr. Thomas in the House of Commons on June 6 that the British Government had received an invitation from Mr. de Valera to a preliminary discussion of the difficulties between the two countries in relation to negotiations connected with the Ottawa Conference, that as a result he and Lord Hailsham, the Secretary of State for War, would cross to Dublin

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that night, and that Mr. de Valera would resume the conversations in London on June 10. This announcement naturally raised great hopes on both sides of the Irish Sea, hopes which were stimulated by the friendly reception accorded in Dublin to the two English envoys, both by the people and the Government.

No Irish leader has ever had a better opportunity of decisively establishing permanent friendly relations between Ireland and England than was given to Mr. de Valera at the London conference. It was quite clear that the British Government was prepared for a reasonable accommodation, and that while the abolition, or the modification of the oath could probably be obtained by negotiation, the question of the land annuities might be left to arbitration. Some such solution appeared not only possible, but equitable, and if it had been achieved Mr. de Valera might well have taken his place in history among Ireland's greatest statesmen. But no one acquainted with his Don Quixote-like mentality expected any such result, and in the event they were unfortunately fully justified. At the first interview, in Dublin, Mr. de Valera, according to Mr. Thomas, pointed out that his ultimate aim was the union of the Irish Free State and Northern Ireland, and after that the recognition of a united Ireland as a republic with some form of association with the British Commonwealth in some circumstances and for some reasons, with the recognition of the King as head of the association. For the moment, however, he admitted that his Government had no immediate mandate for this particular course, though they intended to abolish the oath and to withhold the land annuities as well as other payments to England. After this hopeful beginning Mr. de Valera went to London, where he was politely informed that not only the present but no British Government would ever agree to such suggestions. He then proceeded to argue that the oath was forced upon the Irish people under duress, and that it was not mandatory. In reply to this argument Mr. Thomas quoted

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the statements of Mr. Kevin O'Higgins, and of Mr. Duggan, one of the signatories of the Treaty, and also referred to the subsequent general elections in the Free State which had conclusively decided in favour of the acceptance of the oath and the Treaty. As regards the land annuities, Mr. de Valera claimed that they had been paid under a secret agreement behind the backs of the people, although it was pointed out to him that this agreement was discussed openly in the Dail, and that the Cosgrave Government was afterwards again returned to power at a general election. When asked to submit the question of the land annuities to the arbitration of an Empire tribunal he refused, on the grounds that the dice would be loaded against Ireland in such a tribunal. The net result of the London conference was therefore exactly nothing, save a clear intimation from the Free State Government that they absolutely refused to withdraw the abolition of the oath Bill or to admit that the oath was a Treaty obligation, that they would not agree to an Empire tribunal to arbitrate on the question of the annuities, and that they further intended to withhold other payments due to England under the Treaty and subsequent agreements. In fact, the position was worse than if no conference had taken place.

It may be asked why, in such circumstances, Mr. de Valera ever asked for a conference, and, although the question is not an easy one to answer, the correct reply is probably to be found in his fanatical belief in the justice of his claim and the reasonableness of his demands. How far he suffers from self-delusion, and how far from the domination of an *idée fixe*, it is difficult to determine; but he is one of those people, dangerous both to themselves and others, who only see what they want to see. It is certain that he entered into the negotiations with England just as if he were back in 1921 discussing the terms of the Treaty, and as if ten years of negotiation and development in the relations between England and Ireland had not intervened. What he now describes as his ultimate aim

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is in reality the proposal put forward during the Treaty negotiations, probably by the late Erskine Childers, in the following words: "The proposal is that Ireland, while preserving her national independence, shall for all purposes of common concern, associate herself with the British Commonwealth of Nations, and recognise the British Crown as head of the Association." The grounds given for this demand were that England, unless Ireland were granted complete independence, would be sure, because of her contiguity, to continue her interference in Irish affairs by repression and veto. The same demand was further amplified and qualified in the famous Document Number Two, for the sake of which Mr. de Valera helped to plunge Ireland into civil war. In now reviving this demand he completely ignores the fact that the only argument advanced in its support has been blown sky high by the way in which England has for ten years scrupulously observed the Treaty of 1921, and indeed far extended its scope by friendly negotiation with the Government of the Free State. It is quite true, as Mr. McGilligan lately remarked in the Dail, that Irish independence has been won, but that there are some people who are so foolish that they cannot see it.

On June 16 Mr. de Valera addressed a further note to Mr. Thomas, in which he stated that the Free State Government would agree to arbitration on the question of the land annuities by a tribunal of a general character, provided that its personnel was not restricted to citizens of the British Commonwealth, and that the matters to be submitted for arbitration included not merely the land annuities, but the other annual payments made to the British Government by the Government of the Irish Free State in pursuance of agreements which had not been formally ratified by the Parliaments of both States. In a full year the moneys payable to the British Government by the Irish Free State amount in all to about £5,000,000, and comprise, in addition to the land annuities, sums in

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respect of pensions to police, judges, and civil servants, local loan annuities, and compensation for damage to property in the Irish Free State during the years 1919-21. On June 22 Mr. Thomas made it clear in a further note to Mr. de Valera that the British Government could not agree to arbitration by a tribunal whose personnel was not confined to citizens of the British Commonwealth. To this Mr. de Valera replied on July 1 that the Government of the Irish Free State would regard it as deeply regrettable were artificial restrictions on the personnel of the tribunal to be allowed to stand in the way of the acceptance of arbitration in the present instance. Freedom of choice by the parties in the selection of their nominees was of the very essence of arbitration. He also again stated that the Free State Government disputed the claims of the British Government to all other annual or periodic payments except those made in pursuance of agreements formally ratified by the Parliaments of both States, which together with the land annuities imposed on the people of the Irish Free State a financial burden they were unable to bear. On the same date the Free State definitely defaulted in the payment of £1,500,000, being the half-yearly payment due on June 30 in respect of the land annuities.

It had now become obvious that the British Government must either take action at once or acquiesce in the default, and, on July 4, Mr. Thomas moved a financial resolution in the House of Commons (which was passed by a large majority) giving power to the Treasury to make orders imposing duties on any imports into the United Kingdom from the Irish Free State, up to 100 per cent., over and above any existing customs duties. Tracing the history of Irish land purchase, Mr. Thomas quoted statements by past leaders of the Irish people scouting any idea of the repudiation of the land purchase annuities by the Irish people. He made no charge against the Irish farmers. It was, he said, the Irish Government, not the farmers, who repudiated these payments. The motion was not

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intended to start a tariff war, and when the amount due to the British Government was obtained the duties would cease. During the debate it transpired that the Irish Government was placing the amount received in respect of the annuities in a special suspense fund pending the result of arbitration proceedings. In point of fact, as the law stands at present under Section 12 of the Land Act of 1923, which has not been repealed, the land annuities must be paid into the Land Purchase Fund in any event. But in this connection it is well to remember that the Free State Government have virtually declared a moratorium as regards all arrears of the annuities due on January 1, 1932, and in many districts the farmers have stopped paying them altogether.

Meantime the news of the British Government's action had created considerable alarm in Ireland. Last year Great Britain bought food to the value of £23,500,000 from the Free State, and exports of cattle and sheep and pigs accounted for nearly three quarters of that sum. Moreover, the trade of the Free State with Great Britain is 93 per cent. of her total export trade. As Mr. R. W. Sinnott, the President of the Irish Free State Association of Chambers of Commerce, pointed out in his presidential address on June 30, the retention of our rightful share of the British market is vital to the welfare of the Free State. There is no other market for our surplus produce, and it is quite impossible for the home market to absorb that surplus. But the Free State Government counted on the fact that the British market at present relies almost solely on the Free State for its supply of cattle, sheep and pigs; they believed that the English Government would not venture seriously to interfere with this important source of food, and that a tariff war would inconvenience and injure the British consumer as much as the Irish producer.

On July 6 Mr. Thomas despatched a reply to Mr. de Valera, in which he stated that the British Government

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were willing to consider any variation in the form of the arbitration tribunal which might be acceptable to the Free State, but that its members must be drawn from within the British Commonwealth. They did not know the grounds on which the Free State's liability to other payments had been challenged ; but if, on explanation, these seemed suitable for arbitration, the British Government would be prepared to submit them to a similar tribunal. On the same date the second reading of the Free State (Special Duties) Bill was carried in the House of Commons by a majority of 280 votes, the Labour party's motion for its rejection being defeated. The Bill became law on July 11, and on the following day the British Treasury issued an order imposing a duty of 20 per cent. *ad valorem* on live animals intended for food, animals not intended for food, butter, eggs, cream, bacon, pork, poultry, game and other meat of all kinds imported from the Free State into the United Kingdom as from July 15. On the basis of the Board of Trade figures for the year 1931, the annual value of the British imports from the Free State affected by the new duties is about £26,000,000 out of a total of £36,000,000. On this same day the Dail rejected the Senate amendments to the Oath Bill by a majority of nine votes, and so completed the deadlock between the two Houses. Mr. de Valera's speech during the debate was more than usually dramatic and extreme. Dealing with a suggestion by Mr. MacDermot, one of the Independent deputies, that the Government should withdraw the Bill and "do the decent thing" by asking the people of the country to show whether they desired to sever their connection with the Commonwealth, he replied : "I hope to see the day when we may do the decent thing." He then proceeded to protest that no Irishman could take up the challenge with the position as it is to-day, because the British Government had never given any unequivocal declaration that they would not interfere by hostile action if the people of Ireland chose to break away completely

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and have no further connection with them. On July 11 the date on which the British duties became effective, the Dail passed through all its stages an Emergency Duties Bill giving the Free State Government omnibus powers to retaliate against England. This Bill authorises the imposition of excise and stamp as well as customs duties.

Meanwhile the rapid and disastrous development of the situation had clearly alarmed the Irish Labour party, and their leader, Mr. Norton, after a long interview with Mr. de Valera, proceeded to London, where, through the intervention of Mr. Lansbury, the leader of the British Labour party in the House of Commons, he saw Mr. Ramsay MacDonald, who said that he would be happy to discuss the position between the two countries with Mr. de Valera with a view to a settlement. Mr. de Valera accordingly once more travelled to London and saw the British Prime Minister on the evening of July 15. Mr. Norton had proposed that negotiations should take place between representatives of the two Governments, but no means coming to an agreement when these negotiations inevitably failed after, probably, months of useless talk, were suggested. Mr. de Valera asked that the new British duties on Irish agricultural produce should be removed during the proposed negotiations, but Mr. MacDonald refused to agree to such a proposal unless the Free State Government paid over the annuities then due, pending the final decision, and the negotiations accordingly broke down. The real dispute between the two Governments is however, on the vital question of who is to act as umpire in the arbitration proceedings. Mr. de Valera will not accept a citizen of the British Commonwealth, and it is believed that he desires, as he did in 1921, that the final decision should be left to an American nominee. This attitude of mind, which is fundamental, is based on suspicion of any proposal made by English politicians—a suspicion not peculiar to Mr. de Valera—and on his desire to assert the sovereignty and complete independence of

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Ireland by forcing England to accept the decision of an international court. It is precisely the same issue as is raised by the abolition of the oath. It is not necessary to go back to the days of Oliver Cromwell, as Mr. de Valera is fond of doing, in order to explain and justify Irish suspicion. One need only read Mr. Denis Gwynn's recent life of John Redmond to find an ample and tragic illustration of the treatment meted out by English politicians, and notably by Mr. Lloyd George, to an Irish national leader who endeavoured to combine Irish and Imperial patriotism. It can only be disarmed by a generous recognition of its substance, and by a concession that will disarm criticism. Were the British Government wise enough to accept or suggest, as final umpire, some person obviously not of English extraction—such, for instance, as Sir Charles Gavan Duffy, the distinguished Irish Chief Justice of Australia—their *bona fides* would be established beyond doubt. At the moment no solution seems either possible or probable. The Free State Emergency Duties Bill became law on July 22. As it was a money Bill, the Senate had no power to postpone its operation, but only to make recommendations, three of which were accepted by the Government. One of these accepted recommendations makes it possible for the Dail to be assembled at any time on a requisition of the majority of its members, and so, if Labour becomes restive, as is extremely possible, it can call the Government to account at any time. On July 25 an order was issued imposing ten import duties under this Act, seven of which are directly aimed at Great Britain, and include coal, cement, electrical appliances and equipment, sugar, molasses, glucose, saccharine, iron and steel. The importation of cheese is prohibited, the preferential rate on potatoes is withdrawn, and prohibitive duties are imposed on pig meat and pig products. The duty on British coal is 5s. per ton, and should yield about £600,000 a year if present imports are maintained. These new tariffs are clearly designed to strike at British trade where it has

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to meet the severest foreign competition, and imports approximately valued at £8,000,000 are involved.

In the final debate on the Emergency Bill, Mr. Cosgrave appealed to the Government to resume negotiations with England, and said that in such an attempt they would have the support of all parties. Mr. Davin, one of the Labour deputies, said that his own party had refrained from speaking on the Bill because they were trying to bring about a friendly settlement; but these speeches had apparently no effect on Mr. de Valera, who seemed to welcome the Bill as an important step towards his object of erecting a Chinese wall around the Free State so that as little outside produce as possible may come into the country. In an appeal for peace issued on the same day, the Cumann na nGaedheal party called upon all patriotic Irishmen to use every effort to prevent the disastrous economic war with Great Britain into which the Irish people were being dragged. No conceivable victory would make up for the loss and suffering to helpless people that would inevitably be involved in such a struggle, the effects of which, if protracted, would make the difference between victory and defeat not worth the reckoning. The way to agreement lay in direct negotiation between the two Governments, and not in arbitration on legal issues. The one real requisite for success was a clear assurance by Mr. de Valera's Government of their unqualified acceptance of the constitutional position created by the Treaty. But there is little hope of Mr. de Valera listening to such good advice. He now knows that there is no chance whatever of his legal argument for the retention of the land annuities being accepted by any impartial court; but he cannot proceed to negotiate for equitable relief without a grave loss of prestige, and he has therefore decided to plunge the country into an economic war rather than to admit his real position, hoping that the resulting confusion will enable him to camouflage his mistakes and offer some avenue of escape. Unless some unforeseen intervention takes

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place, the two countries must now apparently face the prospect of a barren economic war, which will finally cripple the Irish Free State. The Senate has refused to alter its attitude on the Oath Bill, which is therefore hung up until January, 1934. In the meantime much may take place, but it is clear that Mr. de Valera's followers will not permit him to risk the verdict of a general election. The sweets of office are too precious to be lightly jeopardised, and ten years in the political wilderness have made his hungry sheep clamorous for food. If he really believed in his mandate to remove the oath he should have immediately answered the challenge of the Senate by an appeal to the country before the implications of his policy were manifest. But that opportunity will never recur. Nothing but the results of his own actions can now remove him from power before his Government's normal term.

In spite of the economic war with the United Kingdom the Irish Free State Government has actually sent a delegation to the Ottawa Conference. At the last moment Mr. de Valera wisely decided that his official duties in the Free State would prevent him from attending, and the Free State delegation, which sailed from Belfast, consists of the Vice-President of the Executive Council, Mr. Sean T. O'Kelly, who is also Minister for Local Government, Dr. Ryan, the Minister for Agriculture, and Mr. Sean Lemass, the Minister for Industry and Commerce. They are accompanied by various officials, including Mr. Dulanty, the Free State High Commissioner in London, and by two external advisers, Mr. Joseph Brennan, the Chairman of the Free State Currency Commission, and Senator T. Johnson, who is the Leader of the Labour party in the Senate and a strong supporter of Mr. de Valera's policy. Under present conditions their presence at Ottawa is little more than a gesture to gull the Irish electors, because the only commercial agreements which matter to the Free State are those to be made with Great Britain, and such agreements are now ruled out in advance. As Mr. de

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Valera is absent, the delegation, bearing in mind the history of the 1921 negotiations, is not likely to be foolish enough to negotiate a settlement of any vital question, and the Irish taxpayer may legitimately ask why he should pay for what is little more than a joy ride. It is of course possible that this visit to Ottawa may have an educational effect on the delegation, and it is obvious already from Mr. O'Kelly's tactful and moderate speech at the opening meeting of the Conference, and from the fact that the Irish delegation were the first to call on the Governor-General and did not attempt to make any foolish protest against the address of loyalty to the King, that environment and commonsense have had their usual result. All Ireland is, however, laughing at the fact that Mr. O'Kelly and his colleagues have appeared at Ottawa in tall hats and conventional morning dress, a garb which Mr. de Valera has decreed to be taboo for his followers in the Free State.

The Irish Republican Army and the extreme Republican element have meanwhile not been inactive. Drilling is—on the admission of the Government—taking place in many districts, and there have been numerous rumours of gun running, successful and unsuccessful, none of which have been officially authenticated. It is, however, certain that there has been a vigilant patrol of the south-west Irish coast by British destroyers, that the Free State Government was warned of what was happening, and that the Civic Guards have been instructed to keep a close look out for any attempt to land arms. On Sunday, June 19, the I.R.A. held its annual commemoration of Wolfe Tone at his grave in Bodenstown churchyard, County Kildare, where some 15,000 men paraded in military formation, but without arms. The Government took no part in this demonstration and held an official army parade at the same place on June 28, when Mr. Aiken, the Minister for Defence, delivered the usual stock oration common on such occasions, and insinuated that the Free State Army

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might have to attack Ulster. The *Poblacht*, which is the official organ of the I.R.A., denounced this gathering as a mockery of Wolfe Tone. It has also recently denounced Mr. de Valera's policy of external association with England and the British Empire, stating that the national demand is for absolute sovereignty without equivocation. It also demands that the whole Free State government machine, including the army and the civil service, must be scrapped because it is anti-national and reactionary. Recently the *Irish Press*, Mr. de Valera's paper, announced a scheme to establish a new Free State territorial force, to be known as the National Guard, and the I.R.A. organ denounced this scheme, which at first sight had a sinister appearance, as an attempt to divert men of military age from the revolutionary movement. There is no doubt that the almost complete stoppage of emigration has increased the number of unemployed young men in the country and that these idle, and generally quite ignorant, boys are fertile soil for revolutionary propaganda. It is clear also that the leaders of the I.R.A. will give Mr. de Valera no quarter if he departs from the narrow path they have marked out for him. The fact that an I.R.A. officer was recently prosecuted in Dublin for possessing two revolvers and a rifle may perhaps be taken as an indication that the de Valera Government has at last realised that it cannot tolerate two armies, one of which is not under its control. Officially it still maintains its ostrich-like attitude of ignoring everything which does not conform to its statement that Ireland is for the first time at peace and that the I.R.A. have accepted the *status quo*. Although, in the case above mentioned, the facts were clearly proved, the jury were afraid to convict, and Judge Davitt (a son of the great Irish leader, Michael Davitt) promptly sentenced the potential warrior to three months' imprisonment for refusing to recognise the court. Ten days later the Government, doubtless under pressure from the I.R.A., released him unconditionally.

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Mr. Cosgrave's party has maintained an active and intelligent opposition in the Dail, and has shown itself both ingenious and resourceful in debate and manœuvre. Speaking at their annual convention in Dublin on May 17, Mr. Cosgrave said that they stood for the Treaty as it stood ten years ago, not for every line nor every comma, but for such alterations as were agreed on by the high contracting parties. They wanted to continue the friendly relations of the last ten years. Whatever else has been lost by Mr. de Valera's return to power one important thing has been gained: it is now clear that one great Irish party stands decisively for a policy based on Christian relations between Ireland and England, the only policy which can in the end be of advantage, both moral and material, to both countries.

II. MR. DE VALERA'S ECONOMIC POLICY

IF a Glasgow Communist and a die-hard tariff reformer were merged into a single personality and, having somehow managed to escape certification, became Minister of Finance in the Irish Free State, the result would probably be somewhat similar to the budget introduced in the Dail on May 11 by Mr. Sean McEntee. It reaches the high-water mark of predatory taxation and tariff imposition. Mr. McEntee's statement showed that the total amount to be provided for normal expenditure was £27,064,000, and that the total estimated revenue was £23,310,000, to which there had to be added £1,900,000 to implement the Government's proposals and promises for dealing with unemployment, relief of rates on agricultural land, and milk for children of families in receipt of home assistance, making a total deficit of £5,516,000. To meet this situation Mr. McEntee has raised the income tax from 3s. 6d. to 5s., imposed the surtax on all incomes over £1,500, increased the Corporations Profits Tax, placed a fresh

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duty of 4d. per lb. on tea, a duty of 2d. per packet or bottle on packed foreign articles of food and drink, and also on cosmetics and medicinal preparations packed ready for sale, taxed all forms of entertainment except Gaelic sports and the theatre, increased the tobacco duty by 1s. 2d. per lb., taxed gramophone records at the rate of 33½ per cent. *ad valorem*, and complete wireless apparatus at that of 50 per cent., imposed a levy of 25 per cent. upon the hospitals' share of the sweepstake distribution, and a tax of 1½d. per copy on all newspapers and periodicals imported in bulk of which the superficial area of the front page does not exceed 320 square inches; finally they have put 43 new import duties on articles of every kind and description ranging from dressed stone to books. From these variegated tariffs Mr. McEntee estimated that he would obtain a revenue of £910,000, but in the subsequent debates many of them had to be modified and others abandoned owing to their obvious impracticability. For example, the tariff on books has now been confined to books bound in leather or artificial leather—in other words to prayer books and English novels, a strange mixture. The tariff on novels is evidently an attempt at a back door censorship. An absurd tariff on motor car bodies had also to be immediately suspended. Mr. Lemass, the Minister for Industry and Commerce, in fact admitted that in imposing these tariffs they were proceeding by the method of trial and error.

This extraordinary budget is explained by the fact that Mr. de Valera during the election committed himself to a policy of high tariffs in order to build up Irish industry, and promised large extensions of social service and unemployment relief. He was returned to power largely by the votes of men of no property and small income, and he is now doing his best to please his supporters and punish his opponents. Mr. McEntee in his budget speech accused his predecessor in office, quite unfairly, of having left a large concealed deficit, a statement which he after-

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wards had to withdraw. He also said that the Cosgrave Government had left the State with a national debt of £115,000,000 and only £25,000,000 of assets. He arrived at these alarming and inaccurate figures by adding to the real debt of £22,000,000 the capital value of the land annuities, £76,000,000, which is fully covered by the value of the farms, £5,000,000 due in respect of local loans, and £12,000,000, the capital value of the Royal Irish Constabulary pensions, both of which are normal liabilities of a terminable nature payable out of current revenue, and part of the payments to the British Government which Mr. de Valera now also refuses to make. It is clear that the budget is designed to force the property owners to support Mr. de Valera's policy of withholding the land annuities, because only through his success in this project can they expect any relief from the intolerable burden now placed upon them. The civil service, which undoubtedly in the main supported Mr. de Valera at the last election, is now up in arms, because it is proposed to save £250,000 by cuts ranging from 2½ to 20 per cent. on all salaries over £200 a year.

One immediate effect of the budget was the closing down of the new factory recently erected in Dublin by the Free State branch of Gallaher, Limited, the big Belfast tobacco manufacturers, who found it impossible to carry on owing to the preferential rate of 7d. a lb. on tobacco given by the budget to firms carrying on business continuously in the Free State since 1922 and owned by Irish nationals. It might be thought that these tariffs were designed to force foreign combines to open factories in the Free State, but, lest such a result should take place, the Government have introduced a Control of Manufacturers Bill, which is intended to ensure control over the number and nature of external firms which may henceforward engage in manufacture here. No concerns established in the Free State before June 1 of this year will be affected, and no restrictions will be imposed on firms in which Free State nationals have

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a controlling interest. Amusing to relate, the definition of an Irish national in the Bill would exclude Mr. de Valera himself, as he was not born in Ireland, and both his parents were not Irish. On the other hand, any external firm which now wishes to commence manufacturing in the Free State must obtain a licence from the Minister of Industry and Commerce. The purpose of the Bill is to prevent foreign competition with local industry, but, in effect, it will, of course, also prevent the introduction of any foreign capital, for harsh though its terms are, no one can say that it is the last word.

The Minister of Industry and Commerce, subject to Mr. de Valera's orders, will now be the virtual director of the country's economic life. The Irish investor is to be induced by these methods to invest his money in local industry at the cost of enhanced prices to the unfortunate consumer. Meanwhile our unemployment figures have gone up within a year from 25,413 to 31,372, and will rise much higher in the near future. The price of necessary goods is also rising in all directions. Messrs. Cadbury, the well-known English firm of chocolate manufacturers, in a letter to a Tipperary correspondent who had pointed out to them the suitability of Tipperary as a centre for the manufacture of their product, state that they have been notified by the Free State Government that a licence to manufacture will not be granted to them, and that, having regard to the economic policy of Mr. de Valera's Government and the small size of the Free State market, they could not in any event see their way to start manufacturing here. Apart from a few small factories in Dublin started to pack foreign goods imported in bulk so as to avoid the package tax, there have been virtually no serious industrial developments as a result of Mr. de Valera's economic policy, nor, as far as we can judge, are there likely to be any. On the contrary, many important projects, such as the new flour mills, which were to have been built in Cork and Limerick, have been definitely cancelled. The Govern-

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ment's policy with regard to flour milling, which has been imposed upon them by certain noisy and irresponsible busybodies, is to keep out foreign flour and foreign flour millers, and to revive the small uneconomic flour mills scattered about the country. With this object, they have imposed a duty of 5s. a sack on wheat flour and wheat meal entering the Free State. Mills which are under the control of Free State nationals will be encouraged to turn out as much flour as possible, while the mills under the control of English milling firms, notably Messrs. Rank, will be subject to a quota and obliged to pay 3s. a sack for the privilege of exceeding it. The small inland mills, which cannot be worked economically, are to receive a subsidy, and flour is to be imported under licence until the local mills are able to meet the requirements of the country. At present the Free State mills only produce half the flour used here, and unless the Government exercise their power to restrict imports with great caution, the price of flour is bound to rise. To counteract this and similar results from the other tariffs, the Government have introduced a Bill which empowers the Minister of Industry and Commerce to set up a control board and to fix prices for every commodity used for the purpose of food, clothing, or as material for clothing or fuel, and any other commodity which may be scheduled by the Government. There is also to be a food prices commission and a controller of prices, with various elaborate powers and penalties to enforce their decisions. It is clear that the Government is vainly seeking a way of escape from its own folly, but one more bureaucratic experiment is hardly likely to improve the lot of the unfortunate individual, cynically described by Mr. McEntee as "Sean Citizen," upon whom this vicious circle of high tariffs and extortionate taxation is slowly but surely closing. "Sean" can, of course, rejoice in the fact that he is the raw material for the experiments in social legislation that Mr. de Valera vaguely adumbrates, and which seem to be a cross between what used to be called

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Christian Socialism and the most virulent kind of economic nationalism so strongly condemned in the Pope's recent encyclical. Moreover, he can further console himself with Mr. de Valera's discovery that, when all is said and done, it is the people of this country who constitute, for the time being at any rate, the real Ireland, and who must, therefore, pay for his visions of a Gaelic Utopia.

III. THE EUCHARISTIC CONGRESS AND AFTER

NO one visiting Dublin during the week which began on June 20 could have believed that the Free State was in the throes of a grave political crisis. A city gay with flags under the summer sun and thronged with cosmopolitan crowds for the thirty-first Eucharistic Congress and fifteenth centenary of St. Patrick's coming to Ireland, forgot, for the moment at all events, its national cares. The events of the crowded week included a great garden party given by the Irish Catholic hierarchy, a State reception by the Free State Government at Dublin Castle, and the Pontifical High Mass in the Phoenix Park, at which over a million people demonstrated the deep fervour of their faith. By universal consent this Congress, both on its religious and spectacular sides, eclipsed all its predecessors, and was a remarkable example of efficient organisation. There is probably no public place in Europe more suitable for such a ceremony than the Phoenix Park, with its thousands of acres of greensward fringed with trees and backed by the soft loom of the Wicklow hills. Here, at a beautiful altar, specially erected for the occasion, the main celebrations took place. The Papal Legate, Cardinal Lauri, was received with royal honours, and his arrival and departure took place amidst scenes of great enthusiasm. All the elements in Irish life contributed to the success of the proceedings, for it was essentially an Irish celebration, a hosting of the Gael from every country under the sun.

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The leading political and public men carried the *cane* over the Blessed Sacrament in the final procession, and Irish genius in art and music gave of its best to the ceremonial. Yet the observer who was conscious of deeper spiritual realities had to ask himself the question what marks this outpouring of religious feeling would leave on our life and national outlook? Such questions must have stirred many hearts, and indeed found expression in a remarkable address given during the proceedings by the Most Reverend John Glennon, Archbishop of St. Louis U.S.A., who is himself of Irish descent. The Archbishop appealed to the Irish people to forget the past.

"How can we approach the altar of love," he said, "if we have hatred in our hearts, or how return therefrom if our hands are raised against our brother? It may be true, as history tells us, that a people long oppressed becomes suspicious and full of hate, and though we know that the seeds of ill-will are not all of Irish planting, still may we not hope that as these days of oppression pass over, so will end the hatreds they engendered, and Ireland enjoy to-day a broader freedom, and breathing a freer air, as her risen Saviour did, the ceremonies of hatred that bind her?"

This noble appeal, as far as some of our political leaders are concerned, seems to have unfortunately fallen on deaf ears. Even the proceedings of the Congress itself were marred by the obtrusion of political prejudice. Mr. de Valera's Government issued no invitation to the Governor-General to attend the State reception at which the Papal Legate was officially welcomed. He was, however, given his proper place at the purely ecclesiastical functions. This was not the first occasion on which the Government have sought to humiliate Mr. MacNeill, for on April two Ministers left a reception given at the French Minister's house because he was properly received with royal honours. For this boorish conduct the Government had subsequently to apologise to the French Minister but when the Governor-General asked for an apology he could obtain from Mr. de Valera was a statement that

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the "whole affair was unfortunate and regrettable, and one that should not have been permitted to occur." On July 10 the Governor-General handed to the press the correspondence between himself and Mr. de Valera, which the Government first tried to suppress illegally under the Official Secrets Act, and finally released for publication when the letters had already been published in the English press. This correspondence showed that the Government, by a policy of calculated petty insults, had attempted to humiliate the Governor-General and to degrade his office. He was practically forbidden to ask distinguished foreign Catholics to be his guests during Congress week, and when it was known that he was attending the reception given to the Papal Legate by the Lord Mayor of Dublin, the Minister for Defence refused to permit the Army Band to perform. No wonder that Mr. MacNeill intimated that he should either receive an apology or be removed from his office.

Everyone knows, of course, that the insult is not intended for Mr. MacNeill himself, who is a quiet, courteous gentleman, but for the office that he holds. The issue which this correspondence raises is one, indeed, which goes to the root of the present situation. Briefly, it raises the question whether Mr. de Valera and his Ministers are prepared to observe the constitution in the spirit as well as in the letter. The King is the head of the Irish Free State, and, as such, his representative should be treated with honour and respect. The same unChristian bitterness was revealed in the attacks by organised bands of hooligans, in several parts of Northern Ireland, on the Catholic pilgrims going to and returning from the Eucharistic Congress. This disgraceful conduct was duly condemned by the Northern Government, but it illustrates only too well the bigotry that passes for religion in some parts of Ireland.

The Irish Free State.

August, 1932.

THE CRISIS IN CENTRAL EUROPE

THE title of the present article, at any rate, can make no claims to originality. It must have headed innumerable contributions to the press since the Peace Treaties set their seal on the break-up of the old order. Central Europe, a term which for the sake of convenience will be taken to include both the groups mentioned in the next paragraph, has never enjoyed a condition of normal healthy equilibrium in the post-war era, and has generally suffered from acute maladies in one or more of its constituent members. It is scarcely necessary to elaborate the reasons for this state of affairs, the majority of which fall under that convenient phrase "the Balkanisation of Europe." The purpose of this article is rather to analyse the present situation in the various countries and to examine some of the remedies which have been put forward.

Since the war the countries of central Europe have formed, both in a political and to a considerable extent also in an economic sense, two distinct groups—the victors, or rather those who benefited by the victory, and the vanquished. On the one hand Czecho-Slovakia, Roumania and Jugo-Slavia, the little Entente; on the other Germany, Austria and Hungary (Poland and Bulgaria may be included or not in their appropriate groups according to taste), one group endeavouring with the support of France at all costs to maintain the political *status quo*; the other refusing finally to acknowledge it. From an economic point of view the similarity is most marked between the defeated countries. In May, 1931, shortly after the difficulties of the Credit-Anstalt had become public, a German banking friend of the writer's pointed out how in all the critical

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developments since 1914 Austria had led the way and Germany had followed. Political collapse; military collapse; revolution; inflationary crisis; stabilisation crisis; and now banking crisis. Two months afterwards his prophecy came true. Hungary, although she differs from Germany and Austria in being almost entirely agricultural, has had a very similar history. This similarity of economic development in the defeated countries was, curiously enough, partly if not mainly due to a factor which is the precise counterpart of their political attitude—refusal or inability to accept the economic limitations and the immense reduction in their standard of living that would have been the natural consequence of the political settlement. It is true that in Austria and Hungary the economic limitations were mainly the result of territorial losses and tariff barriers, while in Germany their primary cause was the pressure of reparations. But this is immaterial. Both the excessive post-war inflation—inflation is always a refusal to face facts—and the over-borrowing which characterised the period 1924-1929 in these countries were attributable to this cause. Germany hoped by borrowing so to expand her apparatus of production that reparations could be paid without sacrificing the standard of living, of course realising that she was creating a vested interest in the abolition of reparations if things went wrong. Hungary under Bethlen borrowed to maintain or improve the standard of living, to finance propaganda and to create a vested interest of foreign creditors in her situation. Austria borrowed just to carry on and support the dead-weight of Vienna as before. Loans were offered in plenty to these countries because they were well known, because of old banking connections, because of their good pre-war credit record, and, last but not least, because there was an almost absurd plethora of loanable funds. Now that the fall of world prices has about doubled the real burden, it is not difficult to see why excessive debt is the principal characteristic of their economic situation.

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The other group of countries have not over-borrowed—at least to nothing like the same extent. Having been poor and having grown richer if anything through the Peace Treaties, they had not the same incentive to hang on to an old standard of living. Moreover they were less well known; their banking connections were less well developed; in the case of Jugo-Slavia and Roumania their political and financial situation did not inspire confidence; so that, except for the help periodically tendered by France and for some "reconstruction" loans, money was harder to come by. Czecho-Slovakia could probably have borrowed more but was too wisely governed to do so. The specific economic difficulties of Roumania and Jugo-Slavia are thus mainly due to low agricultural prices and incidentally to financial and political misgovernment as exemplified in Professor Rist's report on Roumanian finance, which will be dealt with later; those of Czecho-Slovakia to the difficulty of disposing of her manufactured products; while all central European countries alike are suffering intensely and likely to suffer still more from the virtual throttling of trade through a new factor, which has become far more important than tariffs, namely government control of foreign exchange—an outcome of the financial crisis. The whole situation, both from the political and the economic points of view, is overshadowed by the division described above and by the conflict of interests between France and Germany, which has hitherto succeeded in preventing anything being done at all. A Franco-German understanding must inevitably be the corner-stone of any reconstruction of central Europe.

II. THE PLIGHT OF THE DIFFERENT COUNTRIES

TURNING to the individual countries, Germany takes the first place as a matter of course. She is not only by far the most important country but she is to-day in process of making history, both political and economic.

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The paramount factor in the economic situation of Germany to-day is the problem of debts, and particularly of foreign debts. The Lausanne settlement, which is dealt with in another article, is the legal acknowledgment of an undoubted fact, namely that Germany neither can nor will make any substantial payments on her political debt. Can she and will she meet her commercial obligations? This depends mainly on two connected factors: the possibility of maintaining a sufficient international trading surplus, and the possibility, under the strain caused by the efforts to maintain that surplus, of keeping the German economic machine going, with a standard of living which does not provoke uncontrollable political reaction. The most authoritative statement of the position is to be found in the Report of the Special Advisory Committee convened under the Young Plan at Basle in December, 1931. The figures presented by the German delegation to the Committee estimate the gross foreign indebtedness (including foreign shareholdings and participations) as at the end of July, 1931, to have been about 30 milliard Reichmarks, or £1,500 million at par.* Of this huge total, some £600 million was owed at short term. Taking into account the heavy repayments after the date mentioned, the Committee estimated the annual service of the debt (interest and amortisation) at from £80 to £90 million. It further estimated the German receipts on foreign investments at from £15 to £20 million. The net service (without repayment of short term debt) to be met in the balance of payments may thus be put at between £60 and £75 million. In 1931, when immense efforts were being made to repay debt by exceptional liquidation, and in fact nearly £250 million of capital were withdrawn, Germany achieved a record export surplus (including service of about £5 million) of over £150 million. The Basle Committee pointed out that the circumstances were exceptional

* All currency amounts in this article have been converted into Sterling at par.

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and that this could not be kept up. The Committee was right. For the six months January-June, 1932, the export surplus totalled about £30 million, or a monthly average of £5 million as against the £12 million in 1931. Nevertheless, taking the minimum estimate of debt service requirements given by the Committee (which for a reason to be given later is more likely to be correct), *i.e.*, £60 million per annum, the present export surplus of £5 million per month will be seen to be sufficient. It must be admitted that both the May and June figures were below the average level (£4½ million in June), but if services be included Germany is still making ends meet.

This is no mean achievement in a period of intense crisis and bears comparison with that of any debtor country in the world. The efforts of other central European countries like Austria and Hungary, as will be seen later, will not bear comparison. Within the comparatively short space of five years an annual import surplus of some £200 million was turned into an annual export surplus of £150 million in 1931, and in the teeth of an unparalleled throttling of trade a surplus at the rate of £60 million per annum is still being maintained. How has this been done? By a ruthless economic contraction involving what is probably the heaviest unemployment in the world. The reductions of salaries, wages and unemployment relief enforced by governmental decrees and natural economic pressure vary approximately between 20 per cent. and 50 per cent., with a rough average of, say, 35 per cent. In estimating the practical effects of this, it should be remembered that owing to heavy agricultural protection the cost of staple articles of working-class consumption has fallen very much less than in most other countries. Even the official cost-of-living index, which has probably a certain bias in order to make wage reductions more palatable, has only fallen about 15 per cent. from the 1929 peak. At the present time, when employment is normally at its best, about 5½ millions, or over a quarter of the total working population, are out of work.

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Under the German dole system, these step gradually down the scale according to the duration of their unemployment, and when they reach the lowest grade their income is about a quarter or less of their wage in employment. Large numbers of the population are thus in a state of semi-starvation. The index of production (1928 average=100) fell to 53 in January last. Nearly half the industrial life of Germany had stopped. German industry, by going in for a programme of "rationalisation" on credit, made it impossible to work at a profit unless production were maintained at a high level. This is just what has proved impossible and, as in the United States, it has resulted in a sort of creeping paralysis. The efforts, by economies, to adjust individual businesses to the situation merely accelerate the general deflation. Nor is agriculture, in spite of a protection which maintains the prices of staple products at two to three times the world market figures, in better case. Having contracted debts at high rates of interest when prices were high, it now finds it more or less impossible to earn sufficient to meet the interest, and measures of protection and financial relief, amounting almost to a moratorium, have been taken to prevent a general collapse.

Hand in hand with this unparalleled process of economic contraction has gone an increasing interference by the State in every department of economic life. The Social Democrats may perhaps find some consolation for their political defeats in the astonishing progress that Berlin has made towards Moscow. The State largely controls and owns the banks (and through them a vast proportion of German industry), the shipping trade and the heavy industries. Through the "foreign exchange regulations" it has a control over foreign trade which is not far short of that enjoyed through the Russian foreign trade monopoly. It dictates wages and hours, the level of interest rates (by arbitrary reductions), when and to what extent debts may be repaid, the level of rents, to some extent the level of prices, the flow of capital and the organisation of private

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enterprise. It did not do this as a chosen policy, but mainly as the enforced result of its initial efforts to save the machinery of private enterprise from collapse under the strain.

Through all this, the "gold standard," or what has been better described as a "ghastly parody of a gold standard," has been maintained. The German foreign exchange regulations which have achieved this result are the most efficient in the world. There is very little "black market" for marks. The Germans boast of their *eiserner Vorhang* (iron curtain). All foreign exchange must be delivered to the Reichsbank, which doles it out in co-operation with a government department, the "Foreign Exchange Authority," to importers or debtors. Hitherto interest and contractual amortisation or long-term debts have been permitted to be transferred, but capital repayments have been forbidden except in special circumstances (under the Standstill Agreement, etc.). The German organisation has served as a model for those of other countries, which will be dealt with later. Rightly or wrongly, the Germans felt that the disadvantages and dangers of abandoning their gold "parity" outweighed the advantages. They feared an inflationary panic on the part of the population (which well remembers the recent inflation and knows exactly what to do). Moreover, German debts are mainly in gold currencies or on a gold basis, so that the automatic alleviation of debt which was an important result of Great Britain's abandonment of the gold standard, would not have taken place. Now that the British experiment appears to be successful, they envy Great Britain, but are unlikely to follow her example, at any rate for the present.

As a necessary part of the German effort to avoid inflation at all costs, the Reich budget has been kept more or less balanced. Disregarding the Treasury bills issued for the support of the banks, the floating debt has actually been reduced since 1930. This has been achieved partly by economies and partly as a result of the German system

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which tends to throw the burden of unemployment relief more and more on the local authorities. These have almost without exception large deficits, and very few are solvent.

The financial situation remains one of intense strain, largely owing to the drain of foreign exchange abroad. The Reichsbank reserve of gold and foreign currencies has dropped from about £130 million in 1930 to less than £45 million, and it is still falling. The Bank Rate is 5 per cent. and overdrafts cost about 8 per cent., so that there is no sign of cheap money alleviating the economic situation, as elsewhere. The long-term rate, calculated on a basis of market prices, is about 10-12 per cent., but in fact, long-term money is virtually unobtainable.

In view of the situation described above, it is not surprising that there should be a growing demand for revision of private debts, which shows signs of becoming a plank in the programme of the Right parties, contrary to most of their previous declarations. Politically this is based on the argument that most of the money Germany borrowed abroad went in "tribute," the borrowing being a consequence of the pressure to pay reparations. Economically, the two main arguments are the fall in prices (and thus increased burden of debt) and the trade barriers to Germany's exports. The Reichscreditgesellschaft, a Government-owned bank, points out the impossibility of debtor countries making payments unless creditor countries are willing to take goods, and openly advocates the reduction or partial suspension, by mutual agreement, of the interest on foreign loans. Herr Hugenberg, the Nationalist leader, is said to have a plan to reduce interest on all debts, including foreign debts, to 2 per cent. As in December last the interest on all internal German securities was by decree limited to 6 per cent., such action is merely a question of degree. Had the Lausanne Conference been a failure the Germans would undoubtedly have declared a transfer moratorium. They will now probably reserve their fire

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till the World Economic Conference in the autumn. Unless this Conference does something very drastic towards increasing trade and raising prices, a revision of German private debts will probably be inevitable.

In the meantime, however, as is fortunately usual in economic development, a natural correction to over-indebtedness has appeared in the shape of repurchase of obligations at absurdly low levels. A great many German securities, sound from an internal point of view, are quoted on foreign markets at a quarter to a third of their par value. They have been and still are being repurchased in large quantities by Germans. This has been done partly in defiance of the foreign exchange regulations; partly legally, and partly by evasion with the connivance of the authorities. A well-known European banker told the writer that he put the rate of such repurchase at some £25 million per annum in cash, which would represent nearly £70 million per annum par value. This, if continued, would soon make an impression even on the huge total of German foreign debt, which must already have been largely reduced by the capital repayments made last year. At a rough estimate it would repay the total debt in ten years or less. In this connection it is interesting to note that the Reichscreditgesellschaft, while advocating a reduction of interest, wished in no circumstances to interfere with amortisation, but rather to accelerate it. A vision of a Germany largely free from foreign debt both political and commercial arises. It is by no means an impossible one.

The political situation, with the tremendous swing to the Right which has characterised the last two years, is partly the product of economic distress and unemployment, but this is by no means the whole story. The parrot-cry of the Nazis, and indeed of the whole Right—"Down with the Weimar system"—expresses a deep-seated and growing reaction against the Constitution, the men who worked it, and the whole structure of society in Germany since the war. It is this reaction which gives real popular appeal to

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Hitler's vague talk about the "Third Reich"; to anti-Semitism, since the influence of the Jews, as the cleverest, most adaptable and hence richest section of the population since the old order was broken up, has been enormous; to "anti-Marxism," by which is meant the fight against the trade unions and their leaders whose position and influence were established through the Revolution; and in general to most of the wild talk with which Nazi speeches and propaganda are filled. The anti-foreign and anti-Versailles talk of which so much has been made abroad really plays an auxiliary rôle; naturally the Versailles settlement and reparations were intensely unpopular, and this unpopularity was exploited by the "National Movement." But in reality practically all Germans think alike on this subject, the only differences being of method and even then in practice not amounting to very much. What then is the National Movement aiming at? What do the 14 millions of Nazi voters want? They do not really know, apart from the fact that they want a change. What do the Nazi leaders want? Mainly to get the previous holders of office out wherever possible and substitute their own men, who by now are impatient to enjoy the fruits of their propagandist labours.

Herr Hitler and his followers probably hoped to attain their ends all over Germany this year. Their electoral gains were enormous. Hitler secured 14 million votes in the Presidential elections as against 6 million in the Reichstag elections of 1930. It looked as though the movement were irresistible. Had Dr. Brüning's Government with its Socialist support and the Prussian Centre-Socialist coalition remained in power, it would very probably have been so. Even had absolute electoral success not been achieved, a Nazi-Nationalist *Putsch* might have found the Reichswehr lukewarm in its support of what many soldiers looked up on as a "Marxist" régime. Then, with nearly half the population behind him, Hitler's position might have been that of a Mussolini. But a man of whom very little has been heard

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until recently went to President von Hindenburg, and Dr. Brüning's resignation resulted. General von Schleicher, sometimes known as the "Field-grey Eminence," is now said to be the real ruler of Germany. However that may be, the Papen-Schleicher Government, the personal choice of the President, may well turn out, despite the bitter attacks of Republicans, to have saved—by stretching—the incredibly elastic German Constitution. They have no parliamentary support, yet in a sense may be said to have won the elections. These have resulted in stalemate, as in Prussia. The Nazis and Nationalists, even with the support of the minor parties which sympathise with their aims, have no clear majority. The Centre has in a sense the key position, but it cannot co-operate with the Left, since the Communists and the Right could throw any such combination out. In practice, it has merely the choice between tolerating the Papen-Schleicher Government or creating a deadlock in which that Government would be the only possible way of carrying on business.

Negotiations have been in progress for a reconstruction of the Cabinet with Nazi participation. On August 9, the President, who still insists on a Government independent of party, offered Hitler important posts, including, it is understood, the vice-chancellorship. This offer the latter declined, demanding, according to an authoritative account, not merely the chancellorship but "the same position as Mussolini received after the march on Rome," a demand which the President peremptorily refused. The Nazis are apparently afraid of assuming responsibility without control. Nevertheless, if they repudiate responsibility and go into opposition, while von Papen and von Schleicher, resting securely on the Reichswehr and police, strengthen their hold on the country, they run a grave risk of losing popular support and of splitting into extremists and moderates. Whatever they do, this split is a danger, but one which certainly need not be lamented. It will be interesting to see whether the process of "turning

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the national movement to practical use," a declared object of the present Government, will continue. Even if Hitler were to become Chancellor, the Nazis would not have supreme control, since the old régime, which the present Government represents, are too experienced to be easily ousted. The crisis will come to a head when the Reichstag assembles towards the end of this month.

Whatever the dangers of the assumption of power by adherents of the old régime—and there is widespread distrust of them in France—it will, at all events, be a gain if Germany, despite the most acute political strife, obtains strong government for some time to come. If real leadership is shown, the natural tendency of the German people should be to fall into line.

Austria.—Austria has presented a more or less perennial problem since the Peace Treaties confined Vienna, a city of some 2 million inhabitants, within a small territory with a population of 6 millions. She has continually been "on the verge of collapse," but in fact has continued to exist. Vienna to-day may be a mere shadow of its former self, but it is still a very pleasant capital to live in, and distress is no more evident there than in many other European capitals, Berlin for example. How has this been possible? Probably because Austria has never yet really been brought up against the facts of her situation. Certainly at no time since the war has she been really self-supporting. Her problem being essentially one of foreign trade, the trade figures give the best indication of her position. Her average annual trading deficit has been about £30 million. Invisible exports (tourist traffic, services, etc.), which in Austria are considerable, are estimated to have reduced the deficit in the balance of payments to some £12 million, which has been covered by borrowing and by the gradual realisation of assets abroad (mainly in the Succession States). This in itself might not be serious did the Austrian figures show real elasticity under the strain of the crisis. In 1931, when Germany achieved a record export surplus, the Austrian adverse

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balance was still over £26 million, and the real deficit on the balance of payments, taking an optimistic estimate of invisibles, over £10 million. For the first six months of 1932 the adverse balance was about £11 million, so that, since the invisibles must have suffered a heavy reduction, the real deficit is still considerable. To this deficit, which will probably again not be far short of £10 million for 1932, should be added the service of foreign debt, roughly also £10 million. A change-over of some £20 million in the balance of payments is thus theoretically required. Since annual imports at the present rate would only total some £44 million and annual exports £23 million, the likelihood of this may be estimated. A change-over of £10 million (sufficient if there is complete default on debt) can be imagined, but, unless something very radical is done, the prospects of foreign creditors will not look rosy.

It cannot be said that Austria has made no efforts to redress this position. There has been reluctance to make the really drastic public and private economies that Germany has done. But of direct efforts to correct the trade balance there has been no lack. Foreign exchange regulations of the usual type has been in force since last autumn; clearing agreements have been made with various countries (and partly abandoned as unsatisfactory); there have been actual import prohibitions; and a tariff war with Hungary (surely a Gilbertian absurdity) has been started with the idea of correcting the trade balance with that particular country. But the result has merely been to decrease the total volume of trade, not appreciably to reduce the deficit.

In the meantime the official "gold standard" has been maintained. The National Bank and the private banks still only pay the par schilling value of foreign exchange handed to them (they virtually do not hand out foreign exchange at all). But since the schilling is quoted at a discount of about 25 per cent. on the international markets, trade is making use of other channels. These are the so-

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called "black market" and the private clearing arrangements between exporters and importers. The latter allow Austrian exporters to sell their foreign exchange to Austrian importers at the world market rate, and are a fruit of the policy of Dr. Kienböck, president of the National Bank, who first realised that if transactions were confined to the official rate trade would soon stop altogether. Absurd though it may seem, there is a certain logic in this policy. As long as the official rate for the currency is at par, internal debts, which are almost invariably on a gold basis, do not rise with the depreciation of the currency. Moreover, it may act as a certain check on inflationary panic by the population. At the same time the currency is, to some extent, allowed to find its own level. This represents a compromise which may be unsatisfactory, but has not yet produced the complete paralysis of trade which promised to be the result of the original policy.

The internal position of Austria is one of incipient inflation. All other means of financing public deficits are nearing exhaustion. Taxes can hardly be increased further, and borrowing is impossible. Both the 1930 and 1931 budgets closed with a deficit of about £8 million, and for the current year a further deficit is expected. This does not take account of local government bodies whose finances are in a catastrophic state. It seems virtually impossible to attain equilibrium on the present level. *The Economist* estimates that taxes have increased since 1924 by 55 per cent., without taking into account the fall in prices. Now prices are rising—the first sign of inflation. Although controlled inflation might alleviate the situation, can it be held in check when it arises from State deficits? The industrial situation is roughly analogous to that of Germany, which has been dealt with fully. Unemployment is rather less severe in proportion. The banking situation is overshadowed by the Credit-Anstalt, which owes about £20 million to the National Bank and about £14 million to foreign creditors (guaranteed by the Government). The

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standstill short-term debt of other banks is less than £4 million. Although the Bank Rate is 7 per cent. and interest rates are high, the National Bank is not really pursuing a deflationary policy for fear of the consequences to industry.

The whole situation being thus provisional and extremely precarious, and the foreign exchange reserves of the National Bank having declined to about £5½ million, the recent default on private debts is scarcely surprising. The "transfer moratorium" provides for the payment of the service of foreign debts, converted at the official rate, into a Schilling fund at the National Bank. In contrast to the situation in Hungary and Bulgaria, however, creditors will in general be free to use their schillings to purchase merchandise or to travel in Austria. The Trustees of the 1923 League loan have recently declared the Austrian default, which will certainly only be remedied if the proposed Government loan to Austria goes through.

The loan of £9 million represents the effort of the Powers to keep the Austrian problem in cold storage for the time being. It could not and does not pretend to be a permanent solution. The real question is whether Austria, in her post-war form, can ever, whatever is done for her, become a self-supporting economic entity. The old conditions of the 1922 League loan are again to be applied to the proposed loan, and these not only impose business guarantees in the shape of control, but also prohibit the *Anschluss* or, of course, since the Hague decision, even a customs union with Germany, for the currency of the loan, i.e., for twenty years. There is, in consequence, naturally a strong opposition to the loan, and the Austrians are the less willing to accept it, as it is mainly intended to consolidate existing liabilities (including £3 million to the Bank of England) and to continue the service on other obligations. The Loan Bill has just been passed in committee, but only by the skin of its teeth, and it has still to be brought before the full session of the legislature. If the loan is, after all, accepted, it will undoubtedly ease

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the situation for a time, but it is essential that the Austrians themselves should take more drastic steps than they have as yet done to set their house in order.

Hungary.—Hungary, although an agricultural and largely self-supporting country, is in an even worse financial position than Austria. This is due partly to her own fault, since Count Bethlen's Government was grossly extravagant and encouraged over-borrowing, and partly to the agricultural slump. The total foreign debt is practically the same as that of Austria—£140 million. The annual service of this debt is about £11 million. Yet for the first five months of 1932 the total exports only amounted to £4½ million with imports of £5 million. Even with the sale of the harvest the total exports for the year are not likely to amount to more than from £12 to £13 million with a small export surplus. The comparative figures for 1931 were £20 million, with an export surplus of £600,000, and for 1930, £32 million, with a surplus of £3 million. Thus, as elsewhere, foreign exchange regulations and trade restrictions have merely contracted trade without improving the balance. There is a trade war with Czecho-Slovakia, which has practically reduced trade with that country to a barter of pigs against timber. A trade war with Austria is just beginning.

These figures and facts give some idea of the prospects of foreign creditors. Admittedly the latter have largely themselves to thank for lending such vast sums to a small agricultural country with few or no undeveloped resources. But there was an insidious propaganda in favour of Hungarian borrowing in London and New York, fostered by agents of the Hungarian Government (some of British nationality) who were equally active in the far-flung irredentist propaganda on which the money raised was partly spent. However that may be, it is scarcely surprising that Hungary should have been one of the first countries to introduce exchange restrictions and the first European country to suspend the transfer of foreign debt service.

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The Hungarian transfer suspension, declared last December, provided for the payment of the amounts due into a blocked account at the National Bank, which was to be disposed of in agreement with the creditors' representatives. It is extremely difficult to obtain permission for the utilisation of the amounts within Hungary, and as far as most creditors are concerned they might as well not be paid at all. They are theoretically creating an additional transfer problem, but in practice this is of little importance, since there is obviously no likelihood of more than a relatively small proportion of the full debt service ever being transferred at all. Hitherto the service of the 1924 League Reconstruction Loan (£14 million) has been met, but the Government has not provided the funds for the August coupon, which is being paid out of an old reserve. The Hungarian Government has issued a statement expressing its regret at the unavoidable suspension of transfers, and indicating its determination to reconstitute the reserve as soon as the exchange position improves. It hopes at any rate to be able to put the trustees in funds to meet the coupons up to and including the one due in August, 1933. This unqualified priority accorded to the League loan is causing great protest from investors in other securities.

Nevertheless, Hungary is laying even greater emphasis than Austria on the "gold standard." A rumour that Austria intended to devalue brought the most emphatic assurance from the Hungarian Government that it intended to do nothing of the sort. Yet, of course, a black market in exchange has developed, and in Budapest some business is reported at about half the nominal value of the currency. Hungarian policy does not, at least to the same extent as that of Austria, aim at taking advantage of the international discount of the pengo. The system of clearing agreements at par of exchange is working badly—as it did in Austria—owing to the rise in Hungarian prices, but private clearing arrangements are not yet encouraged. Nevertheless, a recent statement of the National Bank showed that only

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about half the foreign trade of the country was done under its control through surrender and allocation.

As in Austria, there is incipient inflation from the budget end. The quarterly report of Mr. Tyler, the League representative, gives the real total deficit for 1931-1932 at about £5 million, receipts being about £28 millions. Mr. Tyler blames the drain by the State undertakings and the practice of giving special relief to various sections of the population. The wheat and rye bounties, which are likely to have a serious effect on State finances, are a case in point. As already mentioned, prices are rising.

The present Hungarian administration under Count Karolyi is making strenuous efforts to maintain financial order, and Karolyi's attitude towards foreign creditors is markedly different from that of his predecessor, Count Bethlen. He is, however, having great difficulty in inducing the country, and particularly the ruling upper classes, to accept the reductions in their standard of living which are inevitable if the country is to pay its way at all, quite apart from making payments to its foreign creditors. The Hungarian problem is fundamentally one of over-indebtedness and of adjusting the standard of living. Whatever happens, the country cannot starve.

Czecho-Slovakia.—Czecho-Slovakia is undoubtedly financially and economically the soundest State in central Europe. She had no reparations to contend with, like Germany, no relatively large city to provide for, like Austria, no large and extravagant upper and middle class refusing to adapt its standard of living to economic necessities, like Hungary. Agriculture and industry are relatively well-balanced; labour works well with low wages; and the standard of industrial management is high. The country has borrowed relatively little from abroad and has maintained an active balance of trade since 1920. This balance amounted to over £10 million in 1930 and £8 million in 1931. The State finances are in a sound condition, there has been little public extravagance and the budget still

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balances. Foreign exchange regulations have had to be introduced, but these were really the result of the wealth of such regulations with which the country was surrounded. They were probably necessary in order to facilitate negotiations with the neighbouring countries. There has been no default on debt and there is no "standstill" banking arrangement. The political situation has been relatively stable since the war. Unfortunately the country can scarcely remain an island of prosperity if the present trade stagnation in central Europe continues. The bulk of her trade is done with her neighbours, particularly Germany, and all of them are endeavouring to cut imports in every way possible. Moreover, she is having the greatest difficulty in obtaining payment for such exports as she can still sell to the Danube States and she is engaged on a bitter tariff war with Hungary.

Roumania.—Mainly an agricultural country, Roumania has of course suffered considerably from the slump in agricultural prices which has produced great distress among the peasantry. There have also been serious banking difficulties, notably the failure of the famous House, Marmorosch, Blank & Co. The financial and budget situation is absolutely deplorable owing to the grossest mismanagement, not to say corruption. The report of Professor Rist, sent to investigate the situation at the request of the Roumanian Government, discloses a state of affairs which would disgrace a comic-opera Ruritania. In 1929 Roumania received an international stabilisation loan of some £22 million which she agreed to utilise according to a definite programme of stabilisation and reorganisation. She kept to practically none of the points of the programme. The promised budgetary control has been a dead letter and the uncovered deficit amounts to over £12 million, due mainly to the departments exceeding their definite monthly authorisations. Huge arrears have reappeared, many of which cannot be accounted for; State debts are left unpaid; the most indescribable financial muddle exists

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between the various departments and authorities; the agreement to concentrate public funds at the National Bank has been disregarded; and in the words of Professor Rist the fact that the stabilisation programme has failed to re-establish Roumanian domestic and foreign credit is due "not to economic difficulties, but exclusively to the unsound methods of financial administration." This situation, be it noted, has arisen in spite of the efforts of the foreign technical adviser to the National Bank. Investors in "reconstruction" loans should certainly read Professor Rist.

In view of this situation, a considerable flight of domestic capital developed in the early spring, which led to the imposition of exchange restrictions in May. Hitherto there has been no default on international debt, which consists practically entirely of State obligations. The annual service of this debt amounts to about £7 million. Both in 1930 and 1931 an export surplus of some £7½ million was achieved, total exports in 1930 being £35 million and in 1931 £27 million. But, as is to be expected, the figures for the current year show a further sharp contraction. Professor Rist points out that industrial development can contribute little to the balance of payments, and emphasises that the creditor countries will have to assure markets for the agricultural surplus.

Jugo-Slavia.—The economic situation of Jugo-Slavia is naturally similar to that of her agricultural neighbours. The same distress among the peasantry prevails; there are foreign exchange restrictions and a black bourse. The budgetary position is, however, relatively satisfactory—the deficit for the current year only amounting to about £500,000. The foreign trade position shows the usual contraction. The total volume for the first five months of 1932 was only £8 million as against nearly double that amount in 1931. Until that year, when imports and exports nearly balanced at £18 million each, there has been an import surplus. However, Jugo-Slavia has com-

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penations in the form of tourist revenue and her balance of payments does not present an insuperable problem. The annual service of the State debts (excluding war debts) which are mainly owed abroad and are by far the largest item in the total foreign debt, only amounts to about £4 million, surely not an excessive burden for a country of 14 million inhabitants. Default on this debt has hitherto been avoided. According to the latest reports there appears to be some improvement of business. Clearing agreements with Czecho-Slovakia, Switzerland and Italy have helped to ease the black bourse and to make foreign currencies more obtainable than previously. There is a monarchist-military dictatorship and the underlying political situation, complicated by the eternal animosity between Serbs and Croats, is exceedingly strained.

III. SUGGESTED REMEDIES

UNDER the pressure of the crisis various remedies have been put forward. The first was the ill-fated Schober-Curtius customs union—a first step towards the *Anschluss*. This would, at any rate, have solved the Austrian problem. At least an Austria merged in Germany would merely have become a small part of the German problem. The *Anschluss* would be an outlet for German energies—there is plenty to be done in clearing up the Austrian muddle; it would increase the South German Catholic influence in Germany; and the very reluctance of the Conservative-Prussian elements to consider it shows that it would weaken, not strengthen, Germany as a striking force. But the customs union was scotched by France and her satellites for political reasons. The Tardieu Plan, which led to the London Conference this spring, may have been a belated recognition by the French that something had to be done for Austria, but certainly looked like an attempt to set up a central European group under French auspices,

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as a bar to the *Austrians* and to Germany's economic penetration in south-eastern Europe. Its main feature was a scheme of preference between the five Danubian States—Austria, Hungary, Czecho-Slovakia, Jugo-Slavia and Roumania—upon which the seal was to be set by the grant of international financial assistance. When the London Conference broke up, mainly on the rock of Herr von Bülow's resistance, M. Tardieu, asked what would happen, is reported to have said: "We shall watch the revivifying stream of capital flowing from Germany to Austria and Hungary!"

The Tardieu plan was, of course, based on the old idea of a Danubian customs federation, whose simplicity and apparent logic gives it a specious popular appeal. But as Mr. Gedye clearly showed,* it is not only impossible to reconstruct the Hapsburg territory out of the States existing to-day, but even if it were possible the economic development which has gone on since the war would result in anything but a balanced unit being attained. In a recent number of the *Economist*, a writer pointed out that during five years of relative prosperity the Danubian countries made not the slightest move towards sacrificing uneconomical industries and artificially fostered agriculture, and asked whether now with their enormous unemployment and catastrophic financial position they were in a position to do so? But perhaps the most weighty factor is the enormous and growing importance of German trade for the five countries concerned in the Tardieu Plan. While inter-Danubian trade has declined from about 36 per cent. of their total international trade in 1923 to about 28 per cent. in 1931, the trade of Germany with these countries has increased from about 10 per cent. to nearly 25 per cent. of the total. In view of this development it seems idle to expect Germany to acquiesce willingly in being kept out of a *bloc* in which she has gained such a foothold. Moreover the Tardieu *bloc* would have a very

* See an article in *The Contemporary Review*, May 1932.

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large surplus of agricultural produce which would have to be sold outside. The obvious markets for this surplus are Germany and Italy, both of which countries would clearly refuse to absorb it if their own trade is subjected to discrimination at the same time. France, on the other hand, can do little to help. Her trade with the Danubian countries is relatively infinitesimal. It is indeed obvious that no real solution of the problem is possible without the whole-hearted co-operation of Germany. The *Anschluss* is banned for the present. But the gradual extension of German trade and influence, which would be the natural way of ensuring economic reconstruction and would provide Germany with an outlet for her energies which she badly needs, must be provided for. If France, taking the view of her financial strength implied in the words of M. Tardieu quoted above, obstructs any solution which recognises Germany's legitimate interests, there is no hope of a solution at all. In any case there is no simple wonder-working nostrum, and the progress towards recovery can only be slow.

The first and most important thing is to secure the abolition of the currency restrictions with which the central European countries are strangling what trade remains to them. The longer this state of affairs continues, the more difficult it will be to remedy it. Apart from Germany, whose deflationary measures are unique in modern economic history, and Czecho-Slovakia, they are willing neither to adjust their international position by stringent economy and deflation nor by permitting currency devaluation. The reluctance of countries which have known inflation to run the risk of going through it again is comprehensible, but economic forces are bound to prove too strong in the long run. Perhaps developments in Austria point the way out. A wide black market and private clearing arrangements between importers and exporters at the international rate for the currency are helping to save the situation, in spite of the nominal par quoted by the National

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Bank. This creates a situation which can be recognised in time by official devaluation. If the authorities in other countries learn to wink as well as the Austrians, the situation may yet be saved, in spite of the influence of the Financial Committee of the League which has largely been exerted towards making exchange restrictions watertight in order to obtain exchange for the service of League loans.

The whole trouble is that no one is really prepared to face facts. Creditors will not yet recognise that a large part of the money lent to central Europe is lost, and that the sooner this receives practical recognition in the shape of reduced interest and capital, the better will be the chance of saving the rest. A policy of throwing good money after bad—like the new League loan to Austria—will not save much and may lose more. On the other hand, central European countries will not face either the real depreciation in their currencies or the rigid deflation necessary if their currencies are to be saved. The French will not face up to the perfectly legitimate German interests in central Europe, and the Germans will not face the necessity of coming to some sort of working agreement with France. This is the key to the situation. A combination of German trade and French finance might put central Europe on its feet. And it may be that a Franco-German understanding is nearer than most people imagine. As long as there was a large and growing Right Opposition in Germany, no Government supported by the Left could make any concessions to France. But a Right Government might. It should not be forgotten that the Papen-Schleicher Government signed the Lausanne Agreement, and has hitherto behaved with studied moderation.

THE UNITED STATES BEFORE THE ELECTION

THE *Annus Irae* is half over. We are in the last days of what a sardonic writer has termed Year III of the Abolition of Poverty. The process of deflation has gone on. Deflation is the pet word of the economists—to laymen it is more like a desiccation or a blight. We seem to have stepped Alice-like through an economic looking-glass into a world where everything shrivels. Bond prices, stock prices, commodity prices, employment—they all dwindle. One recalls the skin of the wild ass in Balzac's novel diminishing with every desire of its owner. Is it any wonder that, in such a world, men should be overhung by a sense of impending calamity? What, one inquires, can revitalize a world in this uncanny decay? What can cure the Black Death of the industrial twentieth century? What a pity that we cannot send Mr. Hoover to Delphi to learn some act of atonement to placate the implacable gods. But their ways are past finding out and their pleasure past learning. Plainly economists, like Mr. Maynard Keynes and Mr. Stuart Chase, cannot sit on the same tripod with our bankers and financiers. And the senators and representatives are not looking at people on tripods but at people in polling booths.

Statistically speaking—and everybody is speaking statistically nowadays—the story of the last twelve months may be told somewhat as follows:—

	June 30, 1931	December 31, 1931	June 30, 1932
Average of industrial stocks*	151.48	77.90	42.84
Average of railroad stocks	85.02	33.63	13.43

* What we call shares are called stocks in America.

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June 30, 1931 December 31, 1931 June 30, 1932

Average of utility stocks	60.81	31.41	17.08
Average of 40 bonds	95.46	77.77	69.62
Price of copper ..	8½ c.	7½ c.	5½ c.
Wheat	56½ c.	55½ c.	47½ c.
Cotton	9.83	6.44	5.63
Rubber (No. 1 standard)	6.65	4.80	2.59

And bear in mind that the figures for June 30, 1931, reflected already some twenty-one months of violently falling prices.

The composite index known as the "business thermometer" on June 30 stood at 53 per cent. of normal as against 58 per cent. for the week ended April 23 mentioned in THE ROUND TABLE for June.* June 30 approximates the low point of the depression to date. And yet the motto of the market place, unlike the aspiring mottoes of our youth, appeared still to be *ad inferiora*.

Well, perhaps not. Everything is obscure. Much is contradictory. There has been, for example, on the side of evil a new outburst of bank failures with its nucleus in Chicago. Set off against this that the price of hogs which means so much to the great agricultural communities has doubled in a few weeks. For instance, one can feel a sort of lyric ecstasy over the following homely news item from Chicago :—†

Top price of \$5.10 a hundred pounds was recorded on hogs in an active market, a gain of 5 cents over the early morning peak and 20 cents above Thursday's practical high. Most swine sold 10 cents to 15 cents higher with 180-240 pound weights ranging at \$4.00 to \$5.05. Plainer kinds and packing sows sold at steady levels to 10 cents higher. Provisions were firm to slightly higher.

The big packers have been more active buyers this week than in nearly two months. Shippers on the other hand were less interested in the market with the result that pigs are going at the largest discounts. The three big packers, Armour, Swift and Wilson, have

* THE ROUND TABLE, No. 87, June 1932, p. 520.

† Wall Street Journal, July 23, 1932.

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bought more than 18,000 hogs up to the middle of this week against only 9,000 a week earlier and but 1,000 hogs in the comparative period two weeks ago.

Commodity prices have improved recently in sugar, rubber and oil. But chain store sales are making new lows. Business is worse. Bankruptcies are increasing. Failures for the single week ending July 16 totalled 650. But "sentiment" is better. What does "sentiment" matter? Certainly the watchword of 1930 that prosperity was "right around the corner" didn't bring us to prosperity. There must be more than hope or sentiment to bring recovery. But on the other hand some mitigation of despair would help. Speaking of school mottoes, there is *Possunt quia posse videntur*. There is something to be said for that Virgilian tag.

II. RELIEF LEGISLATION

CONGRESS adjourned on July 16 after scaring nearly everyone out of what wits he had left with strange projects of legislation. For eight months or so our whole legislative structure was racked and strained almost as badly as our banking and financial structure. In the last five months of the session after the creation of the Reconstruction Finance Corporation and the Glass Steagall Bill enlarging the rediscount privileges of the Federal Reserve Bank, Congress sank to almost unprecedented depths of public disesteem. It is not surprising that in such times as these political discontent rises. It is surprising on the whole that it has not yet risen higher. Actually the record of Congress in legislation has not been bad. The Goldsborough Bill to restore the lower purchasing power of the pre-depression dollar perished in the Senate. The budget has been balanced after a fashion by the enactment of a new tax Bill which increases import levies, income, and estate taxes, lowers exemptions on the

Relief Legislation

income tax payable by married persons from \$3,500 to \$2,500, and on the tax payable by single persons from \$1,500 to \$1,000, raises ordinary postage from two cents to three, taxes checks, telephone and telegraph messages and levies a manufacturers' excise tax on gasoline, lubricating oils, automobiles and trucks, tires, toilet preparations and toothpastes, cameras, matches, chewing gum, candy, electrical energy, mineral waters, grape concentrate, malt syrup and brewers' wort. Just what the increased revenue will be obviously depends on business volumes and prices. Most authorities agree that the budget balancing is theoretical, that the expenses of government are still disproportionately high and that taxes constitute an excessive burden on our debilitated economy. But the moral value of facing the issue has been indisputable. At least the budget deficiency will be cut from the stupendous figure of nearly three billion dollars reached this year which was some \$762,000,000 in excess of Treasury estimates.

The "Bonus Expeditionary Force" of former veterans who marched to Washington to obtain immediate payment of the government bonus obligations maturing ten years hence are being dispersed without achieving their goal. Congress was creditably deaf to their entreaties. The Secretary of the Treasury aptly remarked that they were trying to get payment of a debt that was not due in money that was not real. Their demonstration may be prophetic of many in the months to come. Marching upon State and national capitals to call attention to this, that and the other is likely to become a favorite pastime next winter. It will be hard doubtless for legislatures and executives to take a fair course between truckling and fierce repression. This particular onslaught of the bonus army seems to have been met with commendable energy and tact. But Government generosity to ex-service men has passed the point where it can be justified on any principle save that of vote getting. Veterans' relief will constitute 26 per

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cent. of all federal expenditure for the next fiscal year. Similar expenditure in Britain accounts for less than 6 per cent. of the budget and in France for less than 18 per cent., though both countries had far more men under arms, both relatively and absolutely, than the United States.

In the last hours of Congress after the passage of a relief Bill vetoed by President Hoover, a new Bill entitled the "Emergency Relief and Construction Act of 1932" was passed and signed by the President. This Act adds \$2,122,000,000 to the sums made available by measures already taken to cope with the depression. \$300,000,000 is made available to the Reconstruction Finance Corporation for relief work in the several States. Another \$322,000,000 is tossed in for "self-liquidating" public works. And the balance of a billion and a half goes to the Reconstruction Finance Corporation for loans to States, municipalities, public agencies and public corporations to aid in financing projects authorized by federal or State law. The field of the Reconstruction Finance Corporation is broadened to provide assistance in the exportation of agricultural and other products.

Also a new Home Loan Bank Bill has passed both branches of Congress and obtained the President's approval. This Bill provides not merely for a system of financing home building through eight to twelve banks with a total capital of \$125,000,000, but also for a temporary currency inflation by authorizing national banks to use government bonds bearing interest up to 3½ per cent. as security for new issues of currency. This provision is limited to three years. It is believed that currency expansion thereunder may reach a billion dollars.

President Hoover has heartily commended this Home Loan Bank Bill, which is one of the measures advocated in his programme of last November. Both this Bill and the relief Bill are frankly inflationary in character. Neither measure could have been passed a year ago. But these are not moments for petty consistency. We move on from

Rays of Hope

crisis to crisis, muddling undoubtedly and hoping that we shall somehow muddle through. That the Government has gone into business in wholly unprecedented ways and to a wholly unprecedented degree is obvious but generally ignored. Few projects of State socialism have ever been conceived upon a grander scale, but we are still doing lip-service to individualism, to competition, and to *laissez-faire*.

III. RAYS OF HOPE

THE drain on our gold reserves has ceased and the "open market" operations of the Federal Reserve have had as their consequence the purchase of over a billion of government obligations. The result should be to force financial institutions into the bond market, where prices have in many cases already "discounted" disaster, and to set banks making loans instead of calling them. What effect, if any, the policy has so far had is obscure like everything else. But at any rate bond prices have risen notably in the last six weeks. A bond pool, the American Securities Investment Company, has been formed by the big New York banks, not to "support" the bond market but to make money. And this of course argues confidence in high quarters that capitalism will not perish or credit altogether fail. But we have had so many rays of hope blotted out by black clouds of disaster from every quarter of the heaven that we do our hoping very gingerly. Besides, we have learned that even in the highest quarters of Wall Street the capacity for foresight is imperfect.

Then there has been Lausanne. Everyone agrees that the relaxation of the impossible burdens laid upon Germany is hopeful and constructive. The progressive reductions of reparations from an original proposal in 1919 of 125 billion dollars to three-quarters of one billion sounds like the recession of stock prices from the 1929 highs. But the so-called gentleman's agreement and the Anglo-French

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pact are viewed by press and politicians with varying degrees of suspicion. Senator Borah, Mr. Nicholas Murray Butler, and some of our best writers are outspoken for a corresponding reduction in the debts owed America. But it can scarcely be said that public opinion on this point has been brought to their view. Indeed, the National Democratic platform contains the following declaration :—

We oppose cancellation of the debts owing to the United States by foreign nations.

Certainly many Republicans would assent to this. But there can be no conclusive American answer to Lausanne until after the November elections. There is probably an increasing tendency to recognize the intimate relation of this settlement to the daily affairs of men the world over. Plainly American policy should be realistic.

IV. THE PARTY CONVENTIONS

FINALLY we have had our party conventions. The Republicans met in Chicago on June 14 and did what was expected of them in renominating President Hoover and Vice-President Curtis. Undoubtedly the substance of their strategy will be an appeal to the electorate, in the language of Lincoln, not to swap horses while crossing the turbulent stream of the depression, or, as a wit observed, to swap barrels going over Niagara Falls. There is doubtless justice in this exhortation. What cogency it will have depends much on the economic developments of the next three months. If there is any improvement the Republicans will claim it as the fruits of their policy. Just as they are sure to attempt to profit from the unpopularity of a Democratic Congress. If our troubles multiply, the Democratic plaint will be the more persuasive.

The only hope (says their platform) for improving present conditions, restoring employment, affording permanent relief to the

The Party Conventions

people, and bringing the nation back to its former proud position of domestic happiness and of financial, industrial, agricultural and commercial leadership in the world lies in a drastic change in economic and governmental policies.

The Democratic convention was called to order in Chicago on June 27. Franklin D. Roosevelt, Governor of New York, an office in which he immediately succeeded the preceding Democratic Presidential candidate "Al" Smith, was nominated for the Presidency on the fourth ballot after Mr. Woodrow Wilson's son-in-law, Mr. William G. McAdoo, had swung to Roosevelt the votes of the California delegation which had gone to Garner on the previous ballots. Texas, Garner's own State, was likewise released to Roosevelt, and John N. Garner, Speaker of the National House of Representatives, was nominated Vice-President. Though the famous two-thirds rule requiring nomination by two-thirds of the delegates and not by a mere majority was retained as in previous years, the contest for the nomination had none of the heat and color of the Democratic convention which perspired through 103 ballots to the nomination of John W. Davis in 1924. The outstanding political development of the pre-convention manoeuvring was the newly arisen hostility between Mr. Roosevelt and Al Smith. How far this will be reflected in the November polling is uncertain. But schism has been a familiar Democratic phenomenon.

Actually the interest of the country has attached less to the respective party nominees than to the approach of each party to the harrowing question of the repeal of the eighteenth (prohibition) amendment to the federal constitution. After a long debate on the forthright repeal "plank" espoused by Mr. Nicholas Murray Butler, the Republican convention voted by a vote of 681 to 472 to adopt the following cautiously worded utterance:—

A nation-wide controversy over the eighteenth amendment now distracts attention from the constructive solution of many pressing national problems. The principle of national prohibition as embodied

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in the amendment was supported and opposed by members of both great political parties. It was submitted to the States by members of Congress of different political faith and ratified by State legislatures of different political majorities. It was not then and is not now a partisan political question.

Members of the Republican party hold different opinions with respect to it and no public official or member of the party should be pledged or forced to choose between his party affiliations and his honest convictions upon this question.

We do not favor a submission limited to the issue of retention or repeal. For the American nation never in its history has gone backward, and in this case the progress which has been thus far made must be preserved, while the evils must be eliminated.

We, therefore, believe that the people should have an opportunity to pass upon a proposed amendment the provision of which, while retaining in the Federal Government power to preserve the gains already made in dealing with the evils inherent in the liquor traffic, shall allow States to deal with the problem as their citizens may determine, but subject always to the power of the Federal Government to protect those States where prohibition may exist and safeguard our citizens everywhere from the return of the saloon and attendant abuses.

Such an amendment should be promptly submitted to the States by Congress, to be acted upon by State conventions called for that sole purpose in accordance with the provisions of Article V of the constitution, and adequately safeguarded so as to be truly representative.

The Democratic convention came out bluntly for repeal :—

We favor the repeal of the eighteenth amendment.

To effect such repeal, we demand that the Congress immediately propose a constitutional amendment to truly representative conventions in the States called to act solely on that proposal.

We urge the enactment of such measures by the several States as will actually promote temperance, effectively prevent the return of the saloon and bring the liquor traffic into the open under complete supervision and control by the States.

We demand that the Federal Government effectively exercise its power to enable the States to protect themselves against importation of intoxicating liquors in violation of their laws.

Pending repeal, we favor immediate modification of the Volstead Act to legalize the manufacture and sale of beer and other beverages of such alcoholic content as is permissible under the constitution and to provide therefrom a proper and needed revenue.

The Party Conventions

The action of the two great political parties attests the widespread recognition of the fact that national prohibition has disappointed those who had hoped better things for the celebrated "experiment noble in motive." It is logical that, like better-established institutions, it should face the challenge of the new and disastrous conditions that now confront us. In the last few months there has been a notable trend of public opinion away from the amendment and a recognition of its practical shortcomings. Republicans who four years ago would have "stood pat" on the eighteenth amendment, voted at Chicago for resubmission as the only way to defeat the movement for repeal. The Democrats have for some time been predominantly in favor of repeal. They like to remind the country that Mr. Wilson foresaw many of the evils that national prohibition has brought in its train. At the Democratic convention the only States solidly to oppose repeal were Mississippi, Oklahoma and Georgia. Scattering "dry" sentiment came from the Pacific coast States, the agricultural middle west, Virginia, West Virginia, North Carolina, Ohio and Maine. In the Republican convention only a few State delegations (Wyoming, Arizona, Mississippi, Vermont and Connecticut) stood solidly for repeal. Most of the State delegations split. A dozen were solidly opposed.

Of course the balloting for President will not decide the fate of prohibition. The "wets," to use the conventional but misleading designation, will not all be for Roosevelt nor the "drys" for Hoover. In order to have genuine resubmission as advocated even in the Republican platform two-thirds of both branches of Congress must vote for a resolution to repeal the eighteenth amendment. This means that in many States there will be sharp contests for Congressional seats on the repeal issue. Much Congressional sentiment must be changed before the repeal resolution can be passed out to the several States. Only 187 Congressmen, out of 431, voted for the Beck Linthicum repeal resolution in Congress last winter. In the Senate,

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repeal sentiment has been even more backward. But Congressmen of all complexions will feel the pressure of popular sentiment this fall.

If the repeal resolution passes Congress it will have to be ratified in at least 36 States acting through their respective State legislatures or preferably through constitutional conventions created for the express purpose under Article V of the federal constitution. The advantage of the latter method is that it permits in effect a ballot on the sole issue of national prohibition uncomplicated by other questions.

Undoubtedly the result of a great and solemn referendum on prohibition would excite interest the world over. Though other nations have experimented with similar legislation, prohibition with all its anomalies has been so characteristically American that any modification of our national policy would work a real change, not only in our government and society, but in national characteristics which have been thought purely American.

Undoubtedly national unrest will help the cause of repeal. But repeal will be hampered by popular apprehension as to legislative alternatives in the several States and the difficulty of agreeing upon them.

V. SOME DOUBTS AND QUERIES

IT is easy enough to write about the depression statistically, and probably statisticians have never in the whole history of the world had such a wide and glorious field for their endeavors. They are legion and they are good on the job. It is less easy to outline and appraise the efforts of the Administration and of Congress to stem and turn the tide of the depression though even here the task may not be beyond the powers of common men. But to appraise now the result of all this disaster upon our future, upon the business and social and governmental units of the next

Some Doubts and Queries

generation, is a task to challenge and baffle the highest powers of human insight. The defects of our political structure are manifest. The pusillanimity and demagoguery of politicians elected under the so-called primary laws, the inefficiency and irresponsibility of a constitutional system which may, and often does, leave legislative leadership in one party and executive in another, the evils of elections artificially fixed—all these are characteristically American and must give concern to thoughtful men, whether American or alien.

In our economic organization, we are becoming increasingly conscious of the inconsistencies between our traditionally individualistic and competitive system and any orderly or stable productive or distributive organization. In our public utilities we not merely recognize but insist upon governmentally regulated monopolies, established for the most part upon certificates of convenience and necessity issued after a judicial determination. It is significant surely that the obligations of these monopolistic and publicly regulated utilities are among the few relatively safe investments in this country today. And yet if this monopolistic principle were extended throughout industry, thousands of industries would be denied existence and millions of individuals would be permanently unemployed. In our present economy the corner grocer is generally unfitted for his job as a retail distributor of food, and oftener than not he gets only financial failure for his pains. But at least he has a job. He creates employment. And if he is to be abolished, industrially speaking, along with millions of quite superfluous lawyers, bankers, truck drivers, shoemakers and middlemen of all kinds, how is he to make a living?

Whatever the basic causes of the depression, its most disturbing result is unemployment. It is unemployment that impairs purchasing power, generates further unemployment, necessitates relief. Here the circle is at its most vicious. In the ratio of the employed to the unemployed

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we may find a sort of coefficient of national well being. Nine men with jobs can certainly bear the burden of one man without. Eight men with jobs could doubtless bear the burden of two without. Lower the ratio to 6 to 4 and the task is difficult. Obviously at some lower point it becomes impossible. When it is completely impossible then a new society must be constructed. The capitalist whose income has shrunk from \$25,000 a year to \$15,000 a year may not be himself a very pitiable object. But if he is to be regarded as a means of support for the *mutilés de la grande guerre* of over-competitive industry, then the decrease in his income becomes a public misfortune. Actually this is one of the most disturbing features of the depression. With constantly mounting needs for relief, we have a constantly diminishing capacity in the relievers, until doubt arises as to the capacity of a community to meet its minimum burdens of disease and want. Hospitals are worried—the winter of 1932-1933 will not be any fun. A good part of our country gets four months of severe cold, so that there must be fuel as well as food.

While practical men face the question of relief, the political philosopher is left to wonder about freedom in the United States of America. How curious is the contrast between our social restraints and our economic liberties. A man may not lawfully sell his neighbor a glass of beer at any price, but he may sell him other merchandise on almost any terms or at any price. In many States he may not play golf on Sunday, but on the other six days of the week he may play as wildly as he likes with such delicate mechanisms as instalment credit, with social consequences considerably more demoralizing than are likely to be caused by a golf ball on any day of the week. On the economic side, his principal handicap is that he may not monopolize, or attempt to monopolize, or combine or conspire with any other person or persons to monopolize any part of the trade or commerce in a State, and may not contract or conspire in restraint of trade or

Some Doubts and Queries

commerce among the States, or within most of the States, though just some such restraint be indispensable to save jobs or natural resources. Undoubtedly public opinion is trending away from these old anti-trust statutes. The United States Supreme Court has lately upheld the constitutionality of the Oklahoma proration statute which contains provisions intended to conserve the oil supply and prevent unlimited production. This decision may promote the enactment of similar legislation regarding other commodities. The story of the law's encroachments upon economics is long and often sad. It is not yet ended.

Of course we ought to have more planning and less chaos in our society. But how can we achieve the goal? Who can plan? Is the abolition of poverty Moscow in 1932 any better than the abolition of poverty Wall Street in 1929? These are some of the inquiries vexing the breasts of humbled men and women in the land of the possibly too free and the home of those who may be brave only from the force of circumstances. The courage and fortitude of the men who faced death in the war and destitution today are beyond all praise. But the necessity for the exercise of such courage and fortitude reproaches our society. And, as Sir Arthur Salter says, we cannot be satisfied with an answer available only to a succeeding generation. We seek a solution today or else resign ourselves to seeing the righteous forsaken and their seed begging bread.

United States of America.

July 29, 1932.

MANCHUKUO

I. THE SPREAD OF THE OCCUPATION

TO the surprise of the most astute observers of Far Eastern affairs, while yet heavily engaged in operations outside Shanghai, the Japanese still further extended their commitments in Manchuria.

Early in February, a Japanese brigade moved north along the Chinese Eastern Railway. A pitched battle was fought outside Harbin. The Chinese forces were driven north-east and north-west, though not without inflicting heavy casualties upon the victors. The Japanese occupied Harbin, and proceeded to consolidate their political and strategic position there.

A few weeks later, after feverish haste in preparation, the so-called "independent" State of Manchukuo (Manchuria) was brought publicly to birth at Chanchun. Meanwhile a savage guerilla warfare developed along the Chinese Eastern Railway. Japanese troops deployed from Harbin east and west along the line. Day after day there came news of desperate skirmishes, derailment of trains—passages of arms which were invariably indecisive.

In April Japan changed the military command in Northern Manchuria, and concentrated a full division upon Harbin, while a large aerodrome, housing numerous bombers, was constructed nearby.

To-day, nearly a year after the Japanese coup d'état at Mukden, Manchuria is probably in a worse state of disorder than at any time since the Russo-Japanese war. The Japanese, on their own admission, are now employing six divisions in Manchuria, and in regard to such matters

The Spread of the Occupation

Japanese officialdom is not prone to exaggeration. In a book published at the end of last year entitled *America's Siberian Adventure*,* General Graves, the commander of the American contingent of that ill-starred expeditionary force, throws much light upon Japanese methods. Under the quotas agreed upon by the Allies participating in the Siberian expedition Japan was allotted 12,000 troops. Although ostensibly adhering to the agreement, she actually threw into Siberia a force which in 1921 totalled 72,000. It is estimated by reliable observers that she now has 90,000 troops in Manchuria. Her forces are in military occupation of the whole of the Chinese Eastern Railway from Manchuli in the west to Hailun and Mulin in the east. Yet, even now, scarcely a day passes without news of an attack upon Japanese troops at some point or other along the railway. Though these attacks are invariably repulsed, they recur, and each time the Japanese report casualties.

The general condition of the country seems steadily to deteriorate. The farmers were not able to plant their crops during the spring, and a serious food shortage is predicted in many parts of the country. Trade and industry stagnate.

When the Japanese army moved into North Manchuria in February many of those who believe that a second Russo-Japanese war is inevitable feared an immediate outbreak. The military occupation of the Chinese Eastern Railway, friction with the Soviet members of the Railway Board, the arrest of Soviet citizens in Harbin, the expressed views of Japanese staff officers, were provocation enough, but there are other causes of ill-will. The railway now under construction from the Korean port of Seishin to Kirin will deprive Vladivostock of much of its trade. Japanese politico-commercial enterprises have already taken over the property of Russian transport organisations on the Sungari River. Hospitals, railway sheds and

* Published by Jonathan Cape.

Manchukuo

buildings have been wrested from the Chinese Eastern Railway. The existence of Russian interests has nowhere been allowed to stand in the way of Japanese pushfulness.

Yet, in spite of the obvious dangers, nothing untoward has happened. It is true that Russia has taken considerable precautions. Vladivostock has been fortified and troops have been concentrated along the frontier. But Russian troops on the frontier withdraw from their positions wherever a clash seems imminent.

The forces of friction, however, remain. Among them not the least potent is the alleged supply through Russia of arms and equipment to the Chinese guerilla bodies fighting the Japanese troops.

Whether Russia is prepared to see Japan—her policy strongly militarist—create in North Manchuria the strategic position that she has so long desired, eliminate by gradual stages the vast and dynamic influence of Russia in North Manchuria, thrust outward into Mongolia, and undermine the economic value of the Chinese Eastern Railway, the port of Vladivostock and the dominant economic position which Russia holds in North Manchuria, is a question the answer to which is not yet known.

The Russo-Japanese situation in North Manchuria* must be kept prominently in mind when considering the issues in Manchuria, as they concern the relations between China and Japan, and in their broader aspect affect world peace and disarmament. The inter-relation of the political clauses of the Washington Treaty and the programmes of disarmament has already been emphasised in these pages.†

* For an interesting analysis of the Russian position in North Manchuria, and the fundamental distinction between the Chinese attitude towards Russia and towards Japan, see *Manchuria, Cradle of Conflict*, by Mr. Owen Lattimore (The Macmillan Company, New York, 1932).

† See THE ROUND TABLE, No. 87, June 1932, p. 565.

The Birth of Manchukuo

II. THE BIRTH OF MANCHUKUO

JAPAN has created a "new State." It is styled "independent," and declared to be based upon the will of the "thirty million inhabitants of Manchuria." By a trick the ex-Emperor of China, Henry Puyi, was conveyed from Tientsin to Changchun and invested with regalia as "Chief Executive" of Manchukuo. The government organisation is the conception of the Japanese military leaders in Manchuria. Comparatively junior officers are taking a hand in the framing of political plans and in their execution to an extent which can scarcely be believed by Westerners who have not been on the spot to see for themselves. Official announcements made in Tokyo serve mainly to obscure the facts, but newspaper articles written by men who are actually concerned with the direction of affairs in Manchuria sometimes lift the veil. Reference need only be made to *The Times* of May 17. Its Tokyo correspondent quotes an article written by a Major Hanaya (closely in touch with the General Staff and with the march of events in Manchuria) and published in a reputable economic journal. Major Hanaya describes in detail the structure of the "Manchukuo" government and its mainspring of action and policy—the "steel frame"—a "Board of Central Affairs," staffed by Japanese officials, which has complete control of the budget and executive, and upon which the different ministries are utterly dependent. A Japanese "inner government," carried on by officials hidden in the recesses of the executive machinery, provides an interesting constitutional experiment and a convenient alternative to annexation.

Owing to her "over-eager"* participation in the international treaties and agreements signed since the Great

* A quotation from a well-known Japanese apologist.

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War, Japan is placed in a very difficult position. To get what she wants she must call it by some other name.

It might be possible to sympathise with an honest pursuit by Japan of her aims in Manchuria. She lives in fear of Russia, just as France lives in fear of Germany. With the development of aerial warfare, Vladivostock seems a dreadful menace to those who sleep in Tokyo. The strategic "necessities" of the army have been reinforced by the pressure of a tremendous economic propaganda—a propaganda which has been exaggerated* but nevertheless is supported by the fact that Japan has extremely valuable economic assets in Manchuria. Her economic and political control of Manchuria has a deep bearing upon the prosperity and happiness of her people.

She has reached a stage of economic development and organisation upon Western lines which has produced, as the inevitable concomitant of over-population, an almost uncontrollable desire for expansion. The pressure of population has indeed produced a desperate feeling of constriction; Japan is impelled by forces which seem to her almost irresistible. There is no doubt that the vast majority of her people are genuinely convinced of the truth of the "life and death" theory with regard to Japanese interests in Manchuria.

The main issue is not—as is so often maintained—a question of the validity of treaties. Carefully considered, Japan's purely "legal" grounds for taking action last September were not at all convincing, apart altogether from the fact that the course she took was inconsistent with the world obligations to which she stood committed. Treaties and agreements are intended to define and to regulate certain human relations. In Manchuria relations were neither precisely defined nor adequately regulated by administrative machinery. In the words of a well-known American publicist, "in Manchuria Chinese rights, Japanese interests and Russian aspirations clash head-on in

* See THE ROUND TABLE, No. 86, March 1932, p. 271.

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a fashion that in Europe and America has always meant war.⁷⁷⁰

In so far as they are attributable to policy, the events of last September must be attributed to a Chinese policy of hostility to Japan, unhampered by any squeamish regard for the spirit of treaties, and a Japanese determination to uphold her economic rights despite the letter of her engagements.

The creation of Manchukuo marks an attempt to create the state of affairs that Japan desires, while at the same time enabling her to retain her international standing with the Powers whose good graces she has in the past done so much to cultivate.

But, in considering the whole question of the motives and good faith of Japan, it should be remembered that she is in a state of intense political convulsion. All kinds of forces are at work and even experienced observers find it impossible to assess their relative strength. There is a movement, with which the army is largely identified, against the present capitalistic régime and the whole structure of party politics—the venal alliance between party politicians and the great family-owned commercial houses. There is a very general feeling of exasperation at the way in which since 1922 her foreign policy has been conducted in accordance with the new ideas of the West—ideas which Japan, having perhaps reached a stage of development on Western lines comparable to that of England in 1900, has adopted sincerely enough through the medium of the men who until recently guided her foreign policy, but which have not penetrated the national understanding to any depth. The army (directly responsible to the Emperor, and an extraordinarily potent force under the hydra-headed Japanese constitution) does not view international concepts through the eyes of the new West. It would not be reasonable to expect it. But it must not be forgotten

* Mr. Chester H. Rowell in the April number of *Asia*.

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that the trend of affairs in Manchuria is to an astounding degree in the hands, not only of the army, but of a swarm of subordinate officers, officials and secret service agents, whose power and influence is much greater than is generally understood.

One result of this situation is a feeling of despair among many educated Japanese about the outcome. They admit that Japan has no unified or controlled policy with regard to Manchuria. She knows what she wants, and the Japanese people stand with considerable solidarity behind the army as the active exponent of a policy of national expansion and prestige. But the army and immense sections of opinion in Japan are obsessed with the desire of exploiting Manchuria "for the people of Japan," and of preventing the introduction into Manchuria of the methods of the corrupt political régime at home.

This factor lies behind an impossible scheme of the General Staff for the mass colonisation of Manchuria with Koreans and Japanese. It is behind the action of those in control of the Manchukuo administration, the Japanese "advisers," discovered and appointed by the army in Manchuria, and drawn from various sources—the army itself, the consular service, the South Manchuria Railway and commercial houses.

To this extent, and to this extent alone, there exists a cleavage between the policy of Manchukuo and the policy of Tokyo. Although Manchukuo is Japanese, it is not part of Japan. The Japanese "advisers," working in close co-operation with General Honjo, fail at many points to see eye to eye with the Tokyo Foreign Office. It is true that there is quite a strong party within that Foreign Office in active sympathy with the aspirations of the Japanese in Manchukuo. But the attitude of many high-placed Japanese officials is well illustrated by a newspaper article recently published in America,* which quotes a prominent

*The United Press Tokyo correspondent recording an interview on July 6, 1932.

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Foreign Office official in Tokyo as basing the case against the "immediate diplomatic recognition" of Manchukuo mainly upon the grounds that Tokyo is "by no means satisfied with the present Manchukuo government which was hurriedly formed and is the work of the Japanese army and of Japanese civilians who have long been active in Manchurian politics." The quotation concludes as follows :—

The horde of Japanese advisers in Manchukuo is not the selection of the government in Tokyo, but of the army. These advisers, acting under the direction, and with the sympathy of the military, are working on a programme which the experienced statesmen of Japan consider highly impracticable.

The position in Manchuria from the Japanese point of view may be described as "stale-mate." Fighting continues and constructive development is the sport of conflicting ideals and half-thought-out ideas.

Recent events in connection with the Chinese Maritime Customs illustrate the methods employed by those Japanese who are directing the development of affairs in Manchuria. The Japanese "advisers" decided to take over the Chinese Maritime Customs there. Fired with excitement and patriotism, branch managers of the Yokohama Specie Bank allowed themselves to be decoyed away from well-recognised banking practice and withheld funds from the Customs Commissioners who had actually deposited them. At Dairen, in spite of Japan's definite obligation under the 1907 treaty to maintain the integrity of the Chinese Maritime Customs administration, Japanese officials encouraged the disruptive process on territory leased from China. Tokyo is forced to maintain the difficult fiction of Manchukuo "independence." As usual, it has followed haltingly behind events already consummated. The organisation of the Chinese Maritime Customs in Manchuria is now completely broken. At Harbin and elsewhere the British Commissioners of Customs have been intimidated

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and forced from their offices by Manchukuo police, led and prompted by Japanese "advisers."

In Manchuria Japan had a good opportunity of establishing a new Chinese administration which would have been more amenable to her own desires. She might have capitalised the very real dissatisfaction with the Chang Hsueh-liang régime. But, thanks to her own want of discretion and the way in which the Japanese army has completely dominated the "puppet" State set up a few months ago, Manchukuo has become an empty farce and an object of hatred and contempt to the majority of educated Chinese who have been obliged to remain in Manchuria.

III. THE FUTURE

IT would be rash indeed at this stage of complexity to attempt to prophesy the outcome of such a tragic state of affairs. It may be said, however, that the quarrel between China and Japan is too frequently discussed in legal terms, in terms of treaties and protocols. It is not a legal matter. It is political and economic. In Manchuria there has developed a situation which, though clothed, and apparently legalised, by certain treaty forms, is without parallel. Japan's economic interests are also essentially political; the South Manchuria Railway is an *imperium in imperio* the exact like of which cannot be seen anywhere else in the world.

There are certain fundamental issues which must be recognised. It has been seen that at the moment the control and direction of Japanese policy in Manchuria is not in the hands of men who recognise the importance and significance of the international agreements upon which the progressive security of the world must rest. These men and the Japanese militarism which stands behind them, constitute a force which has to be reckoned with. Japan is perhaps the only country in the world to-day which is "war-minded."

The Future

Apart from the significance of this fact for the disarmament programmes of the Powers chiefly concerned, it must be realised that Japan is most unlikely to accept any solution of the Manchurian situation which is calculated to check the pressure of her economic and political penetration. The danger is that she may accept some kind of legal definition of the situation and at the same time cynically pursue the realities of her own policy.

On the other hand, China's appeal to the League of Nations was not inspired by any such ideals as those upon which the Covenant is based. The League was dragged in as a useful instrument to assist one of the parties to the quarrel. Neither China nor Japan has been moved by the concepts which inspire the maintenance and development of the League's machinery.

Recently there have been some interesting indications that China and Japan may quite soon achieve a superficial solution of their difficulties by direct negotiation. Enthusiasm for the Manchurian battleground is noticeably declining in China. The boycott is still severe in South China and among overseas Chinese along the Pacific coast-line; but at Shanghai it is weakening. In North China no boycott exists. Despite the disorganisation of its government system, there is an extraordinary racial solidarity in China, and feeling is still concentrated upon the Manchurian issue. And although Manchuria is intensely regional in character, there is an essential racial unity between it and China. Support of armed opposition to Japan in Manchuria has always been unofficial rather than governmental. But racial feeling will not indefinitely take the form of practical demonstration. The Chinese show signs of becoming weary of it, though money is still being collected and remitted by Shanghai bankers to the bandit-general Ma Chan-shan.

On the other hand, the intensity and duration of the boycott and the success of the guerilla tactics in Manchuria are beginning to tell upon Japan. She would be ready to

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compromise to some extent if Chinese support could be withdrawn from the harrying bands of Chinese "volunteers." To this extent legal definition serves its purpose. If a compromise can be effected in legal terms the realities of the conflict will quickly lose their hold upon the Chinese imagination. Nanking, moreover, has good reasons for desiring a speedy settlement, and the seizure of the Manchurian Customs may prove a powerful lever in this direction.

There is some ground for believing that the compromise may take the form of the abandonment by Japan of the Manchukuo experiment—an experiment having all the appearance of dismal failure—and the acknowledgment of Chinese sovereignty, in return, not only for endorsement of the 1915 treaties, but also for certain administrative safeguards. The vital conditions of the struggle, economic pressure from Japan and China's effort to hold off this pressure, will continue.

Fraught with difficulty as the situation is, there are not lacking certain elements of hope. It is in every sense an oriental situation. Many aspects of it are beyond our Western comprehension. "Self-determination" as applied to Manchuria is but an empty catch-word. It is a great country that has suffered so much from misgovernment that it should not pass the wit of man to assure for it a better future. Its future form of government and the relations of that government to China and to Japan must be determined by somebody. It may not pass the wit of Oriental man to devise formulæ and to create machinery, which will satisfy pretensions—not logically perhaps but adequately—and which will work, if not smoothly, at least without dangerous friction.

China.

July 15, 1932.

INDIA : A LESS TENSE QUARTER

IN our last article we described how Government had retained the initiative in the struggle with Congress and what measure of success had attended their policy. We concluded on a note of expectation, as to developments on the expiry of the ordinances, and as to the possibility of more speedy constitutional advance. The close connection between the political and constitutional situation was emphasised, and we explained that improvement in the former depended in large measure on the settlement of the latter. Since the conclusion of the legislative session at the beginning of April, politics have, in fact, been somewhat quieter and conditions in the provinces show considerable improvement. Here and there serious outbursts of communal disorder have occurred—a very disquieting symptom, as will be shown on a later page—and terrorist outrages have continued. As regards the new constitution, the period has been one of conscientious spade-work with some unexpected developments. We propose, therefore, to deal with the four main features of these months, namely: the increasing discomfiture of Congress, the terrorist movement, the communal situation, and constitutional progress.

I. THE DISCOMFITURE OF CONGRESS

THE general experience of the past has been that feeling works up to fever heat in the late spring and early summer, but rarely remains at a high temperature throughout the whole year. This spring, however, has been an exception to the general rule, and the excitement of January

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and February, engendered by the civil disobedience movement, showed a progressive falling off in April, May and June. Men, money and enthusiasm have been lacking. The Congress leaders had decided, in defiance of authority, to hold the forty-seventh session of the All-India Congress at Delhi last April, as a demonstration of their strength and as a means of arousing popular enthusiasm already on the wane. Their efforts were frustrated by the decisive action of the Government and the precautions taken by the local administration. As a session of Congress it was a fiasco, and only served to expose the hollowness of their pretensions. The persons arrested for defiance of lawful orders were for the most part outside mercenaries, and, though excitement ran high for a couple of days or so and imposed a severe strain on the police, it as quickly subsided, and the return to normal conditions was unusually rapid, in spite of a clever attempt to embroil the Sikhs in the Congress agitation. The imprisonment of the acting president, Mrs. Naidu, withdrew a temporary stimulus.

On the failure of this mass demonstration at Delhi, the new *de facto* president, Pandit Madan Mohan Malaviya, determined to concentrate on provincial sessions of Congress and district political conferences, and plans were laid accordingly. This was a shrewd move, and, had it been permitted, might have led to some recrudescence of local enthusiasm. But meetings and processions were generally prohibited as being conducive to breaches of the peace, and, though various attempts were made to defy the orders, remarkably little success was achieved. At Guntur, in Madras, 250 delegates, including the president, were arrested in connection with the Andhra Provincial Conference. In Bengal attempts were made at Howrah and Noakhali, but at the former 19 persons were arrested and the assembly declared unlawful; at the latter, after the promulgation of a prohibitory order under section 144 Cr.P.C., six persons were arrested. At Karachi the proceedings of the Sind Provincial Conference lasted barely 15 minutes and 50

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persons were arrested. At Gujerat there were more arrests, but equal want of success. At Agra and Cawnpore similarly futile attempts were made. There is no need to multiply instances. From every part of India these abortive efforts proved the increasing weakness of the Congress in keeping alive public excitement and the rapidly growing extent to which Government had not only kept the initiative but had gained the upper hand.

Again thwarted, the leaders searched for new devices, and decided to concentrate on the purchase of *Swadeshi* (Indian produced) goods—as a variant of the boycott of foreign goods, and to hold a great *Swadeshi* day on which, perhaps because the growing unpopularity of hartals was realised, shops were to remain open till 5 p.m. To the slogan “Buy Indian” there is, of course, no objection; the Government take no exception to it unless it is a cloak for unlawful boycott and picketing; many persons wholly out of sympathy with Congress support the underlying principle. As a rallying cry, therefore, it has been of little avail, and, as almost every day in the year has now become an anniversary of some sort, the celebration of *Swadeshi* day passed off harmlessly enough and attracted little public attention. “Gandhi day” and “Prisoners day,” since celebrated, fell equally flat. Finally, in pursuance of the Congress policy of making capital out of the alleged harshness of the Administration, the present leaders have taken up the cause of prisoners convicted of offences in connection with the civil disobedience movement, and particularly of the women prisoners. In this respect some popular sympathy may be evoked, and a responsive chord may be struck in the legislature, where verbal overtures are not infrequently made to Congress. But obviously procedure of this kind is as powerless seriously to embarrass the Government of India or local governments as it is incapable of infusing vitality into a losing cause. Congress methods have become thoroughly unpopular, except with a small section of the city Hindus, and increasing difficulty is found in obtaining

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"volunteers," in spite of the offer of higher wages, and the fact that the schools and universities are in vacation, and that agricultural labour is at a loose end during the hot months of May and June. The people are getting tired of interference with their private lives. The destruction of letters in pillar boxes by means of sulphuric acid—the main characteristic of rather an abortive Postal week, the cutting of telegraph wires, the trick of pulling the communication cord of running trains and distributing leaflets on its stopping, forced closing of shops, tyrannical picketing, defiling the Lawrence statue at Lahore, these and similar antics have done nothing to advance—and something to retard—their cause.

The contention is often put forward in nationalist circles that below the surface the whole Hindu population is seething with resentment at rule by ordinance and that this feeling is the real measure of the strength of Congress. It would be more correct to say that Government prestige stands higher than it has done for some time in a country where nothing succeeds like success. Sir A. P. Patro declared at a non-Brahmin conference in Madras that there was within the ranks of the Congress an intolerant oligarchy dominated by capitalists and adventurers, and showed how picketing had given the mill-owners an opportunity of raising their prices. Bitter sentiments have been expressed against Congress by the Depressed Classes Conference at Kamptee and the All-India Hindu Youth Conference at Karachi. Their declining strength and growing unpopularity are, however, best illustrated by concrete facts in regard to their main lines of policy—the maintenance of excitement by defiance of the law and the martyrdom of imprisonment, the no-rent campaign with the direct object of securing rural support, and the financial embarrassment of Government by means of boycott. The figures in regard to imprisonment are illuminating. Pandit Malaviya has declared that 80,000 prisoners are in jail, and the credulous Mr. Fenner Brockway has repeated this figure. Actually,

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the total number of persons imprisoned, including those imprisoned for a short time and released on tendering an apology, has been little more than half—and the fall in the number of monthly convictions is eloquent to those who can read its meaning. The convictions in January were 14,809, in February 17,800, in March 6,900, in April 5,254, in May 3,818, and in June 3,534. The no-rent campaign may be said to have definitely failed. The last instalment of rent due was collected very nearly in full in the parts of Bombay and the United Provinces hitherto most disaffected. Finally, as regards economic boycott, in which direction, as was explained last quarter, Congress had achieved a greater measure of success than in other directions, the Bombay merchants have at last turned. The abnormal conditions obtaining in the Bombay cotton market, and the urgent necessity of restoring freedom of trade, are giving them much food for thought. The East India Cotton Association passed a resolution in June vigorously deprecating hartals, the president, Sir Purshottamdas Thakurdas, deploring the mixing of politics with business, and later the Indian president of the Bombay Stock Exchange expressed similar sentiments. The object of the Congress was not of course to injure Bombay, but to coerce Great Britain. In this they have failed, for India's financial position, though still very difficult, has improved as compared with last year: and though railway earnings are still disappointing, central revenues are looking up generally and there has been a welcome advance in the price of wheat. The latest rupee loan was well subscribed, though the rate of interest was $5\frac{1}{2}$ per cent. as compared with $6\frac{1}{2}$ per cent., which had to be offered last year, and 6 per cent. in 1930. India's external credit is unimpaired.

Such was the general position of Congress *vis-à-vis* Government at the end of June when the momentous question of the renewal of the ordinances had to be decided. As we have shown, the Congress position had greatly weakened, and the Government had fully demonstrated

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their power of dealing with lawless activities. At the same time, this result had been achieved only by the exercise of vigilance and firmness, and there was every reason to suppose that withdrawal of the special powers conferred by the ordinances would immediately give Congress a fresh lease of life, an opportunity for further organisation, propaganda and mischief. The leaders showed, in spite of failure and disappointment, no inclination to give up the struggle, and still wield extensive influence in many parts of the country. A Special Powers Ordinance was accordingly promulgated, which made it possible to arm local governments with all the main powers conferred on them by the Emergency, the Unlawful Instigation, the Unlawful Association and the Boycott Ordinances of January last. In fact, though all the provisions of the new ordinance can be brought into force throughout British India, it has been found possible in many areas, where the influence of Congress has weakened, merely to keep those powers in reserve. The powers of dealing with the press have, however, been retained in full. This action on the part of Government, not anticipated by the Congress leaders, has taken the wind out of their sails. They had hoped to gain, on the expiry of the ordinances, an opportunity of rekindling excitement by a fresh spell of intensive indulgence in their characteristic methods. As usual, they under-estimated the strength of Government. The influence of Congress will probably still further decline, though the process of attrition has by no means reached the point of final defeat, and the possibility of revival through some unexpected stimulus can never in India be ignored.

The Terrorist Movement

II. THE TERRORIST MOVEMENT

WE now pass on to the terrorist movement. Terrorism is one of the main problems of the day, and unless some solution is found, neither provincial autonomy nor responsibility at the centre, nor the complete discomfiture or triumph of the Congress, will bring peace to Bengal. The cult of the revolver and bomb seems not only firmly established, but to be extending. The main features persist—the murder of officials, in reprisal, or to inspire fear, or to satisfy the curious sentiment that such murders are acts of propitiation; the collection of funds for revolutionary purposes by means of robbery and dacoity; and the manufacture of bombs, and the theft of revolvers, to supply the means of assassination. Three brutal and cowardly murders have been committed during the summer. Mr. Douglas, Collector of Midnapore, Captain Cameron at Chittagong, and an Indian Magistrate, Mr. Sen, at Dacca, have been shot—and Mr. Gibson, Commissioner of Ajmer, was attacked, but escaped without injury. Mr. Ellison, Assistant Superintendent of Police, is the latest victim at Comilla. Considerable sums of money have been obtained by train robberies and dacoities to replenish the revolutionary chest. In May, for example, a daring train robbery took place near Dacca, a hold-up in the most approved American style—the communication cord pulled, the train stopped, the guard shot, and the assailants making their get-away in a car kept in readiness for them, with some Rs.32,000. Space prevents the enumeration of many other incidents of a similar nature. As regards bombs and revolvers, a noticeable feature is the number of cases in which in the course of police searches in various parts of India bombs and revolvers are discovered, the number of instances in which injury to the person or destruction of property is caused

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by bombs, and the number of cases in which illicitly owned revolvers are used for the commission of crime, or in which the theft of arms is the objective. Recently, at Lahore, a bomb factory was discovered with a large quantity of bombs, materials for their manufacture, and counterfeit coins, dies and moulds. There is reason to believe that a gang of conspirators has been for a year or two manufacturing bombs for revolutionary purposes, and financing its operations from its own mint.

A curious type of sentimental pervert has sprung up in Bengal, to whom murder is a form of ethical self-realisation. These men, often youths, highly strung, neurotic, slaves of emotion, and careless of life, convinced that they are martyrs and heroes, tend to develop a monomaniacal complex. The ordinary law is quite ineffective. Suspects are, therefore, kept in detention, after judicial examination of their dossiers, but without trial, while those who have been convicted of terrorist crimes are undergoing sentences in jails in Bengal. But their presence in their own province has led to considerable undermining of general discipline in the prisons, and detention in special camps within the province facilitates communication. Power has accordingly been taken to detain *détenus* in jails outside Bengal—and in pursuance of this policy about 100 have been sent to a camp jail established for the purpose in Ajmer-Merwara, a small island, as it were, of British territory situated in Rajputana. The Secretary of State has announced that persons who have been convicted for offences connected with terrorist outrage will be removed to the Andamans. Finally, the provisions of the ordinances dealing with terrorism have been tightened up in certain particulars. It remains to be seen whether these measures of deterrence will check the movement, but the fact that Government is combating it with energy and firmness is bound to tell in time. Terrorism, however, differs in essence and degree from a temporary popular fever such as non-co-operation or civil disobedience,

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and many of its votaries are irreconcilable recidivists who, for the safety of society at large, merit perpetual segregation.

III. THE COMMUNAL SITUATION

MOSLEMS for the most part have held severely aloof from Congress, and have played practically no part in the civil disobedience movement. On the contrary, they have expressed, along with the depressed classes, their abhorrence of civil disobedience and their relief at the protection given them against Congress by the ordinances. But, nevertheless, fully appreciating, as they do, the vital importance of the constitutional issues, and suspecting the Hindus of aiming at the supremacy of their own community, for the last three years they have been equally distrustful of the present constitutional policy of Government and of the Hindus. The more extreme elements have from time to time advocated direct action in order to compel acceptance of their demands. In our last article we referred to the Lahore Conference, at which only after strenuous negotiation was agreement reached not to pass resolutions in favour of boycotting the Round Table Conference, and its committees, but to await, if not too long delayed, the award of His Majesty's Government on the communal question. The extremist section in impatience have now broken away from the All-India Moslem League to establish an independent body, denouncing "ordinance rule," and demanding complete autonomy.

But upon Mahomedan feeling generally certain recent events have perhaps had a calming influence. The new constitution is now working in the North-West Frontier Province, the first meeting of its Legislative Council has been held, and for the first time in its history its budget has been discussed and voted by its own representatives. The Mahomedan Minister has expressed great satisfaction

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at the results, and a mass meeting of Khans voiced their appreciation of the new order. A welcome feature is the comparative quiescence of the Red Shirts, whose interference in the elections caused some revulsion of feeling against them. In Kashmir, again, the report of the Kashmir Constitutional Reforms Conference has recommended the redress of the main Moslem grievances, including the creation of a legislative assembly in which Moslems will have a clear majority over all other communities, and the Ahrar movement, which at one time threatened to be a source of embarrassment, has now subsided. The financial practicability of the creation of a separate province of Sind, on the recommendation of the Sind Enquiry Committee, has also had a heartening effect. Finally, a Mussulman, Captain Sikandar Hayat Khan, has been appointed as officiating Governor of the Punjab, owing to the regrettable illness of Sir Geoffrey de Montmorency.

Though, however, excitement is less visible, the Mahomedans are keyed up to maintain their solidarity, and relations between the two communities are becoming increasingly strained. In the first place, the announcement of His Majesty's Government has aroused strong sectarian feeling. The Mahomedans are anxiously looking to their own position. The Hindus, especially the Hindus of the Punjab, desperately afraid of a permanent Mahomedan majority in the Punjab Council, are doing all in their power to prevent it, and are now making a bold bid for the support of the Sikhs in opposing the Moslem claims. There is at the moment every indication that they have succeeded, for the Sikhs are protesting strongly against a Mahomedan majority in the Punjab with inadequate Sikh representation, maintaining that they would prefer no reforms at all to "Mahomedan Raj." The Hindu Sabha have sent their president, Dr. Moonje, to England, to try to influence the Prime Minister. He claims to represent the depressed classes also, on the basis of his

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part with Mr. Rajah. As the time approaches nearer to the announcement, tension is naturally increasing and feelings below the surface are now very strained. Secondly, the events in the North-West Frontier Province, Kashmir and Sind, as they have served partially to allay the previous excitement of the Mahomedans, so they have disturbed the Hindus. They might mean a considerable strengthening of Mahomedan territorial influence in the north of India, and if, as is freely rumoured, the Mahomedans are to get a permanent representation of 51 seats in the Punjab Legislative Council, Hindu disquietude is not difficult to understand. Thirdly, the main Mahomedan festivals have fallen during the hot months of this summer. Even in normal years their celebration is an occasion for, at times, elaborate precautions to avoid breaches of the peace, and demonstrates the religious fervour and unity of Islam. But when feeling is already running high, the festival season is a very potent factor in intensifying communal partisanship, and the most trivial incidents may suddenly and without warning precipitate rioting and bloodshed on a large scale which causes communal excitement to spread like a forest fire, not only in the city or district where it breaks out, but from district to district and even from province to province.

On May 14 some Moslem youths were collecting subscriptions in Bombay for the approaching Muharram festival. Some Sindhi Hindus refused to make a contribution. Thereupon the Moslem youths, it is alleged, used abusive language, and were beaten by the servants of the Hindus. Straightway a Moslem crowd gathered at the house—and in India crowds collect with astonishing rapidity—and was met by a shower of soda-water bottles. Some Moslems were slightly injured, and the police quickly arriving upon the scene soon restored order in that locality. But this tiny flame soon became a great conflagration. Shops were closed, mobs collected in many parts of the city, mosques and temples were burnt, shops looted and

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houses set on fire. During the disturbances, which lasted about a week, and their subsequent renewal, nearly 3,000 casualties occurred—213 killed and 2,682 injured. Events such as these leave an aftermath of bitterness, and inflame feeling throughout the whole country. The Council of the All-India Moslem League, meeting at Delhi in June, found in the Bombay riots "a fresh instance of Hindu intolerance and high-handedness," but appealed to leaders of both communities "to adopt such measures as would restore peace and good understanding between the communities." They declared that delay in the announcement of the communal decision had already occasioned grave discontent and acute tension between the communities, and was impeding progress in the framing of the constitution. Moslem activity during the period has been mainly devoted to impressing upon England the justice and urgency of their claims and their refusal to accept anything short of the "fourteen points,"* and the Agha Khan had to edit the somewhat intemperately worded document which had been sent to England for publication by a number of prominent Mahomedans from India. The Hindus, on their part, through Pandit Madan Mohan Malaviya, have implored the Moslems to abate their demands, and to have some thought for the nation. While certain leaders, such as Sir Chiman Lal Sitalvad and Sir Cowasji Jehangir, have deplored the inability of Indians to find a solution themselves, and urge acceptance of His Majesty's Government's award, if it is clearly based on justice and equity. There is no gainsaying the fact that amongst the rank and file a dangerous state of tension exists, which might lead to serious communal disturbances, or to a Hindu swing over to Congress, which would equally result in communal disorder. The Hindus who are not now supporters of Congress are in a jumpy and excitable state owing to the change of procedure announced by the Secretary of State with regard to the Round Table Con-

* See the Report of the Simon Commission (Cmd. 3569) vol. II, p. 84.

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service, and as they appear to see in this a fundamental change of policy, they may be caught on the rebound. Many Mahomedans are anxious for early provincial autonomy: the Hindus, on the other hand, for obvious reasons, deprecate advance in the provinces at a different pace from advance at the centre. The communal award is eagerly awaited.* The present situation is dramatic: it is capable of entirely unforeseen developments, and may indeed be radically altered by the time that this article is published.

IV. CONSTITUTIONAL DEVELOPMENT

THOUGH the communal problem at the moment completely overshadows Indian politics, it must not be supposed that no progress is being made in constitutional affairs. We described this period at the beginning of the article as one of conscientious spade-work. It is an open secret that the Government of India are toiling and moiling at the preparation of memoranda and despatches containing their views on the outstanding points of principle and detail. The Reports of the Federal Finance and Franchise Sub-Committees were published on May 7 and June 3 respectively, but the new procedure announced by the Secretary of State on June 27 has precipitated another crisis, which, with the prevailing speculation as to the communal award of His Majesty's Government, has tended to divert attention from these two very valuable reports, except in so far as the Franchise Report bears on the communal issue.

The Federal Finance Sub-Committee, on a forecast of federal and provincial budgets after the federal constitution has been introduced, anticipate that while, if economic conditions become normal, there will be a small surplus of about 4½ crores at the centre, the aggregate of provincial deficits will be approximately 3·82 crores,

* See the summary of the award given at the end of the issue.

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the United Provinces and the Punjab alone showing a small surplus, and Bengal a deficit amounting to two crores. This forecast includes a contribution of five crores from railways and State contributions of 74 lakhs. The complete surrender of income-tax revenue to the provinces is not, in their view, warranted, and the centre must retain a considerable proportion, the rest being distributed to the provinces on rather an elaborate method, the result of which will be that Assam alone will show a deficit. The Committee have no hesitation in reporting that, if the federal government assumed responsibility for the whole of the pre-federation debt, its obligations would be covered by the assets taken over, and that the service of this debt would be fully covered by the sources of revenue remaining at its disposal. As regards powers of taxation, they propose certain sources of revenue in regard to which the power of legislation should rest with the federal government, certain other sources in which it should rest with the federal government, subject to State rights, and finally, sources in which it may rest with the units subject to a right of federal surcharge. The Committee believe that, provided normal economic conditions permit, the Peel Report provides a foundation on which an Indian federation can be established and begin its work.

The Report has not met with much informed criticism, and, as might be expected, the chief line of attack has been that the provinces do not receive full financial autonomy. The Working Committee of the All-India Moslem League consider that any system of contributions from autonomous provinces will render them "financially helpless, politically impotent, and administratively incapable of vigour, energy and effectiveness." From Bengal complaints are made that that province is badly treated and that the unfairness of the Meston settlement is perpetuated. The Report is perhaps too technical for the public to take more than a merely general interest in regard to the resultant position of the provinces and their contributions. It is, however,

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recognised in better informed circles that the Committee under-estimate the danger of the continuance of deficit provincial budgets, and seem unduly optimistic as to the early return of normal economic conditions. The absence of any material reserve, even on the assumption of a quick return to prosperity, causes considerable apprehension.

The Report of the Indian States Enquiry Committee was published on July 29, and thus completes the picture of federal finance. The Committee have carefully examined the debit and credit side of the financial relations of British India with the States, and recommend : (1) the total remission of tribute within a period of 10 years—59 lakhs—together with immediate relief to certain States of 11 lakhs ; (2) in respect of ceded territories, a cash credit to the States concerned, amounting to 37 lakhs ; (3) adjustment of immunities now enjoyed in regard to customs duty, salt and postal arrangements. The effect of all adjustments will be to cause a considerable loss of revenue to the federal government, certain States being in a position analogous to deficit provinces. The total loss may be as much as a crore of rupees, but may be considerably less. The Committee point out that "by their very entry into federation, the States would be making a contribution which is not to be weighed in golden scales." This Report should help to remove one of the most serious obstacles to federation, but is bound to meet with serious criticism from British Indian politicians as, in combination with the findings of the Federal Finance Committee, disclosing a somewhat shaky financial basis for the future, and as erring on the side of generosity to the States. The task of this Committee was exceptionally difficult, as "the course of history during the last 150 years has brought into existence an intricate network of relationships between the two parties, the unravelling and readjustment of which must be accomplished before any advance can be made," and there will be common consent that their recommendations are far-sighted and statesmanlike.

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The Report of the Franchise Committee, on publication, aroused the keenest interest : it makes a direct and intelligible appeal to the ordinary elector and can be readily translated into terms of current politics. The outstanding recommendation of the Report is the increase of the electorate from 7,000,000 to 36,000,000, or from 5·4 to 27·6 per cent. of the total adult population. Adult franchise is dismissed as impracticable, owing to the dearth of officials qualified to work such a system and the enormous numbers involved, with only a very small percentage of literates. Electoral qualifications should, it is proposed, be based on property and education. The latter has the advantage of providing for an automatic extension of the franchise in the future. Additional qualifications are suggested for women, which would give them a voting strength of about one-fifth of the whole. The general electoral qualifications, however, would mean that the estimated 35 millions of the depressed classes could not be enrolled in proportion to their population. Since it is essential that they should be able to express their opinions in the Councils, the Committee make suggestions for securing, by some form of differential franchise, a voting strength more proportionate to their number. The actual method should be left to local governments, owing to the wide difference of local conditions, but the voting strength should in any case not be less than 10 per cent. Special representation for industrial labour is recommended, but, in the absence of a communal settlement, they are unable to make final recommendations for the representation of special interests. A number of provincial franchise schemes, varying according to the special needs of each province, are proposed. Turning to the centre, the Committee endorse the proposal that British Indian members of the Senate should be elected to it by the single transferable vote, on the principle that the upper house represents the units of the federation, and the lower house the nation as a whole. The Federal Assembly should consist of 300 members, instead of 200

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recommended by the Federal Structure Sub-Committee, the area of the constituencies should be reduced by one-third, and the electorate increased from about 1½ million to 8½ million by changing the franchise.

As was to be expected in the circumstances already described in this article, the reactions to the Report are mainly on communal lines. The Hindus generally complain that the majority have not recommended immediate or prospective adult suffrage. The Working Committee of the All-India Moslem Conference, accepting the extension of the franchise, objects to the "segmentation of the Indian electorate" through special constituencies, which, if retained at all, should be for a transitional period, and Moslems should have a share in them. It demands existing weightage for Moslems except in Bengal and the Punjab, where it urges a Moslem majority. On the other hand, the large extension of the franchise proposed has shocked people like Sir Chiman Lal Sitalvad, who think it risky in the case of an illiterate population. The landowning classes are disappointed that no additional special representation has been proposed for them. The size of the constituencies, the proposed strength of the Federal Assembly, and the increase in the number of special constituencies, as being likely to complicate the problem of adjusting communal representation, have all come in for a certain amount of criticism. Responsible opinion, however, for the most part would agree with Sir Sivaswami Aiyar, a prominent liberal, that the report is "a most able document and thoroughly impartial," and that "the proposals of the Committee for the extension of the franchise have gone as far as is possible under existing circumstances." But it is likely that these recommendations will be subjected to a more critical examination, in the light of the communal award by His Majesty's Government when it is made known.

Matters of general constitutional interest, much discussed during the period of our review, have been the

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possibility—indeed the necessity—of speeding up the introduction of the reformed constitution, and the desirability or otherwise of establishing provincial autonomy as early as possible and prior to the completion of the federal scheme. The announcement made by the Secretary of State on June 27 is largely concerned with these questions. He explained the decisions of His Majesty's Government that there should be one Bill covering the whole field (*i.e.*, that provincial autonomy would not be first introduced), that the communal decision would be announced during the present summer, and that a more expeditious procedure for the settlement of outstanding problems had been designed. The main features of this new procedure were that no more plenary sessions of the Round Table Conference would be held, and that full consultation with Indian opinion would be secured by the continuous session of the Consultative Committee, by informal discussion with individual Indians especially qualified, by the appointment of a Joint Select Committee of Parliament, before the introduction of the Bill, with power to confer with Indian representatives, and, lastly, by formal consultation, if necessary, with Indian representatives in London before the Joint Committee is set up. The object of the British Government was clearly to combine greater speed with a more practical collaboration with Indian opinion than could be secured by discussion in full conference.

The decision met with a mixed reception. Most Mahomedan public men regard it as on the whole satisfactory, though Sir Abdur Rahim urges that the legislatures should be invited to co-operate more closely. The Hindus are dissatisfied, though at first there was no suggestion of withdrawal of co-operation, and the steadily growing agitation against it has been due to other causes than its merits. Mr. Chintamani, for example, did not regard it as "wholly satisfactory to Indian nationalists." Mr. Kelkar is gratified that Indian opinion is to have an

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opportunity of expressing its views before the Joint Parliamentary Committee. Sir Sivaswami Aiyar feels that the proposed procedure is better designed to secure expedition. Sir A. P. Patro does not read into the statement any sinister change of policy on the part of His Majesty's Government, but thinks the Consultative Committee should have been taken into confidence before it was made. Messrs. Sapru and Jayakar attribute the statement to Tory pressure, and see in it a clear abandonment of the original intention of the British Government, to reassemble the Round Table Conference for a final review of the work of the various committees, and, while not insisting that a full Round Table Conference should be summoned for a third time, urge "that a smaller body . . . should meet for a final review of the work of the committees, including the Consultative Committee, and for treating with British representatives." The liberals in the United Provinces apprehend a considerable interval between the introduction of provincial autonomy and responsibility at the centre. Mr. Sastri bitterly denounced the procedure: "If experts and people with specialised experience are only to give evidence before the Joint Parliamentary Committee, dominated as it must be by Conservatives, the new constitution will," he declared, "be an imposed constitution, and not one to which progressive parties in India have previously agreed, and which they may naturally be expected to accept." He considers that the decision "humiliates Indians in the extreme." The Congress press has skillfully encouraged opposition, by ridiculing the liberals or by quoting Mr. Winston Churchill's approval of the announcement as the clearest proof that the British Government have abandoned the policy set forth in the various statements of the Prime Minister. The further speech of the Secretary of State and the clear invitation for suggestions has fallen for the time being on deaf ears, and Congress are seizing the opportunity to urge the liberals and others to join them in their policy of non-

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co-operation. Messrs. Sapru and Jayakar have now resigned their membership of the Consultative Committee, and they with twelve other prominent Round Table Conference delegates have announced that the maintenance of the conference method is, as it was, an essential condition of their co-operation and support. The door is not, of course, finally closed, and it is possible that some acceptable and working compromise may be discovered before this article goes to press.

But the question to which some answer should be given is why a modification of procedure designed to expedite the establishment of the new constitution, and accepting the principle of a single Bill and Indian collaboration, should meet in the end with such definite opposition in Hindu circles. The answer seems to be that it is due to three causes : first, distrust of the Conservative majority in the present Parliament ; secondly, apprehension that the method now proposed will eliminate effective Indian criticism at the final stages, and, thirdly, suspicion that it foreshadows, in spite of emphatic disavowal, the prior introduction of provincial autonomy. A more fundamental reason would, however, seem to be the conviction of many Hindus that, in any case, it would be impossible to support the communal decision, and that, therefore, their withdrawal was only a matter of time and expediency : it would be wiser, having regard to the first elections under the new constitution, to make common cause with Congress on the issue of procedure, before the decision was announced. At the moment an *impasse* seems to have been reached, and it would be idle to prophesy whether or not a way out will be found.

India.

July 23, 1932.

GREAT BRITAIN

I. THE POSITION OF THE GOVERNMENT

EVENTS at home during the last quarter have been overshadowed by events abroad. No issue, however important in itself, but has necessarily been related in men's minds to one or other of the great conferences that have taken, or are taking, place. Geneva, Lausanne, and Ottawa have been the foci of converging interests, and next autumn they are to be succeeded by the World Economic Conference. Upon the success or failure of these conferences, which represent different aspects of the world crisis, the fortunes of the present Government, and indeed of many others, will depend. It is no part of the purpose of this article to discuss these conferences—that is done elsewhere. The Lausanne Conference alone has finished its work. As we go to press, the result of Ottawa is still in doubt, while the Disarmament Conference has only reached a sort of half-way-house in the form of certain conclusions, themselves merely provisional, and even at that not unanimous—a deadlock some people call it. However that may be, the labours of that Conference, which is referred to more fully on another page,* are clearly likely to be prolonged, and a considerable time must elapse before the final result is reached. But the inter-dependence of disarmament

* See p. 693.

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and the prospect of a general economic recovery has been put beyond all doubt by the obvious American determination, if the question of war debts is reconsidered, to make their attitude dependent upon the adoption of a substantial measure of real disarmament. At present it is a condition of American participation that the war debt question is not to appear on the agenda of the world conference.

It is clear, then, that we must wait before any prediction based on the result of the conferences can be made with regard to the present Government's life. It will certainly be judged by the event, just as its predecessors have been, and the acid test of its success or failure is likely once more to be the state of unemployment, which in a sense is a mirror of the state of trade. As likely as not, too, when the time comes, its own merits and demerits will enter comparatively little into the decision of the electors.

But if little can be said to-day about the Government's prospects, it is always possible to consider what progress has hitherto been made, and the present state of public opinion. The up-to-date results of the Disarmament Conference have undoubtedly disappointed a large number of people, who are not confined to any one party. As the *Daily Telegraph* put it, "a series of largely academic resolutions." Nothing tangible was decided; all that the Conference has done is to formulate principles "as a basis for further reductions." The Conference is to reassemble between September and January. In the meantime the armaments truce of last September is renewed until March. It is felt by many that the meagre results have made more difficult the outlook for the coming world conference. But those who feel like this are people who have been following events, and we are merely concerned in this section with the effect of events on the position of the Government. The man in the street has too vague an idea of what has been happening at Geneva to form a sufficiently definite opinion to

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apportion either praise or blame. There has been no full dress debate in Parliament on the subject to enlighten people, and the opinions that have been expressed are not unanimous, even among those who are regarded as the protagonists of disarmament. Lord Cecil, for instance, whose views on such a subject naturally command attention, while he admitted frankly that nothing definite had been achieved, thought the Geneva resolution "an immense opportunity." "We have got to insist," he said at the Liberal summer school at Oxford the other day, "that these general principles are turned into reality." Sir John Simon's answer to the criticisms of the interim resolutions at Geneva is that they would only be justified if the resolutions were final. The public generally will suspend judgment till a later stage.

Lausanne, too, was a first step, though a first step of immense importance, as has been generally recognised. As Sir Walter Layton has put it, the conclusion arrived at virtually marks "an end to reparations." "Saturday, July 9," he said in a broadcast to America, "will be noted by historians as one of the most important dates of modern history. On paper the agreement is provisional only; but if there is one thing certain it is that there can be no going back upon the German agreement." The agreement was discussed in the House of Commons on July 12, when Mr. MacDonald claimed that, though the problem of the war debt settlement had still to be faced, much had been definitely accomplished. "Lausanne has," he said, "brought us nearer to France, France nearer to Germany, and France and Germany nearer to us." As regards America, "there are still delicate relations," but "Lausanne has opened new ways, it may be very broad ways, and I ask for the work of my colleagues and myself the hearty approval of this House." That approval was unreservedly given, by the Opposition as well as by the Government's own supporters. The announcement of the agreement with France that followed, and a certain change in the

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attitude of Italy since the Conference caused a good deal of mystification, and even anxiety, but there is no doubt that the prestige of the Government, and especially of the Prime Minister, has been increased by Lausanne. The stock of the Government has, moreover, decidedly benefited by the successful conversion of the 5 per cent. war loan. This, however, brings us to the subject of domestic politics.

Against this exciting background Parliament has pursued an unhurrying and unhurried course. Thanks to its delegation of the details of fiscal legislation to the Tariff Advisory Committee, it has been relieved of what would have been its most harassing problem. At the beginning of June the Committee took a step towards justifying the hopes expressed when the Import Duties Act was under discussion last spring, by appointing a National Committee, from which regional committees have been formed to consider rationalisation projects for the iron and steel industry, and Sir George May warned the industry that, if it hoped to receive continued protection, effective replanning must take place.

The Parliamentary session closed early, on July 13, in order to enable the Government delegates to leave for Ottawa. The first task of the House during the quarter under review was to complete the last stages of the Finance Bill, but it is unnecessary to describe this measure, as it was fully dealt with in our last issue. Other legislation consisted of the Coal Mines Act, which is referred to in the next section, and the Irish Free State (Special Duties) Act, which gives the Government power to tax imports of any kind from the Irish Free State up to 100 per cent., in order to recoup itself for the loss of the land annuities withheld by Mr. de Valera—the history of the Irish crisis during the last three months is described in another article. There was a full dress debate on the question of national economy at the beginning of July—a special committee of Conservative members

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has made it its task to endeavour to keep the Government up to the mark in this respect.

On June 27 there was a statement of great importance by Sir Samuel Hoare. He announced a new programme for the purpose of the constitutional reforms which are to confer Dominion status upon India; the Round Table Conference will not be again convened. The Prime Minister's promised award on the Indian communal question is expected this month. It is interesting to note in connection with the subject of Indian policy that the vacancy in the Cabinet caused by the death of Sir Donald Maclean on June 15 has been filled by Lord Irwin.

There have been three or four by-elections, but they seem to throw little light on the position of the Government, merely indicating a natural tendency on the part of electors to return to their normal allegiance. At Wednesbury, no doubt, the figures of the Government's defeat were striking,* but even Wednesbury, usually a safe Labour seat, was a case of reversion, though the "means test" admittedly influenced the result. If the times do not improve, the Government will no doubt fare badly in other industrial constituencies, but it needed no Wednesbury to make that clear.

As for the Liberals and Labour, both have continued to show signs of fissure. The Independent Labour party has left the Labour party, only to split itself in the process, while the Liberals, especially the young Liberals, do not seem to grow any more reconciled to the continued presence of Liberal Ministers in the Government. Ottawa indeed may prove to be a turning point. If one of its consequences should be a large additional instalment of protection for this country, it is thought likely that followers of the Liberal Ministers will freely break away and move independently to the left, if the Ministers themselves remain in office.

* The figures were as follows : Labour 21,977, Government 18,198. At the last election they were : Government 25,000, Labour 20,842.

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But from the standpoint of the position of the Government the event of the quarter was, of course, the great conversion operation. Mr. Chamberlain was severely criticised, during the debates on the Finance Bill, for his failure to produce a far-reaching conversion scheme. The preparation of such a scheme necessarily calls for secrecy. The Chancellor turned the tables against his critics, with quite devastating effect, when on June 30 he finally announced his plans.

The conversion scheme is, in its boldness, simplicity, and scope, the biggest thing of its kind so far attempted. It provided at one blow for the conversion of £2,000,000,000 of 5 per cent. war loan to a basis, not merely of 4 per cent., but actually of $3\frac{1}{2}$ per cent. The loan, in so far as it is not converted, is to be redeemed on December 1; but holders had the option of continuing at the reduced rate, and, if they accepted conversion terms before July 31, received a bonus at the rate of £1 for every £100 of war loan held. The bonus, moreover, was not subject to income tax as far as the "ordinary investor" was concerned. The saving to the Exchequer is of the order of magnitude of £23,000,000 a year.

This gigantic operation is admitted on all hands to be a triumph of prudence and statesmanship. Its success called for careful and effective co-operation between the Government, the Treasury, and the banks. A bank rate of 2 per cent.—the lowest for 35 years—laid the psychological foundations of its now assured success. Even so, considerable risks were involved, and the fact that they have been successfully surmounted must be credited to the National Government as a major triumph of its career. By the end of July, when the right to the bonus expired, the acceptances amounted to about £1,850 million, or nearly 90 per cent. of the total of £2,086,977,258. The holders of £48 million of the balance of £236,977,250 require cash on December 1. The holders of the remaining £188,977,258 may declare before the end of September if they wish to be

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repaid on December 1, otherwise they will be deemed to have accepted conversion, and many of them have already made known their intention of letting their stock be automatically converted.

If we were to close our record at this point, the prospect would seem full of hope, but there is unfortunately a reverse side to the shield. Conversion with its substantial reduction of the net debt charge and its stimulus to lower interest rates generally is one essential element in trade revival, but there are other elements which are less satisfactory. According to a statement issued on August 9 by the Ministry of Labour, there were 1,994,453 wholly unemployed persons on the register of employment exchanges on July 25, 721,552 temporarily stopped, and 94,777 normally in casual employment, a total of 2,811,782. This was 64,439 more than the number on the register on June 27 last and 98,432 more than a year ago.

Nor do the trade figures supply more cheerful reading. The following table shows the volume of imports and of (total) exports, respectively, for April, May and June, as compared with the corresponding figures for 1931:—

		<i>April</i>	<i>May</i>	<i>June</i>
Imports			£ millions	
1931	..	70.0	69.6	68.6
1932	..	53.5	55.7	57.5
Exports (including re-exports)				
1931	..	39.1	39.6	35.5
1932	..	39.4	34.6	33.9

It will be noted that recent restrictive measures have had an effect upon Great Britain's "visible adverse balance." But our exports, in spite of the various stimuli applied, still remain disappointingly irrisilient.

Further information about the conditions of trade and industry will be found in the section that follows, but, depressing as the statistics continue to be, we have only to look back a year, and the memory of the dangers through

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which we have passed will restore our perspective. The lesson of the figures is, after all, not one of despair; they simply show that recovery must depend on international effort, and that our prospects, like those of the Government, depend upon the results of the great conferences whose proceedings or prospects are discussed in this issue.

II. COAL, COTTON AND RAILWAYS

BRITISH industry as a whole has marked time during the last few months. Coal mining has felt the seasonal depression worse than usual—the number of unemployed miners reached 425,000 in June, and there was a further increase in July. Production in textiles, which received most benefit from the depreciation of sterling, has remained greater than a year ago, but employment is falling off, and the cotton trade has provided one of the worst breakdowns in industrial relations that has occurred in Great Britain since the war. Over most of industry there is a truce of mingled desperation and hope; the bottom of the depression may have been reached, but the signs of recovery are slight. In the industrial field the three most important developments of the quarter have been, perhaps, the coal settlement, the railways pooling plan, and the collapse of collective bargaining in Lancashire.

Parliament disposed of the annual coal crisis a month ahead of time. The Act of 1931 continuing the 7½-hour day in the mines and maintaining wage rates was to have expired in July, but instead of letting things drift until the last hour, the Government rushed legislation through at the beginning of June which prolonged the 7½-hour day indefinitely (or, rather, until the 7¼-hour day of the Geneva Convention is generally adopted in Europe). The Labour plea that wages must be safeguarded by statute from reduction was rejected, and Mr. Runciman accepted a gentlemen's agreement on the part of the coal owners that no reductions will take place for twelve months.

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The seven-hour day of 1919-1926 disappears from the statute book and becomes once again an ideal. The miners pressed hard that the owners should agree to some form of national co-ordination of district wage agreements when the present truce expires. The Government is sympathetic but not prepared to legislate. Next spring the miners will try again; whether the owners will then respond to proposals for national conciliation machinery is another matter.

The Act also prolonged for five years Part I of the Coal Mines Act of 1930, which governs the schemes for the production and sale of coal. The Government did not take the opportunity to revise the schemes to meet the serious defects that have been revealed by the first eighteen months' experience of their working, and amendments are to be made, on the owners' initiative, by departmental order. Proposals are under discussion which involve much closer control of supplies and prices in the home market, both in the districts and nationally; a subsidy for the export trade (this would require statutory powers); and more complete control over the opening of new or the re-opening of old collieries. They have been criticised on the ground that they do not go far enough—they do not touch some of the main vices of the quota system, with its encouragement of the inefficient pit—and that they involve a strengthening of the owners' monopolistic powers without any strengthening of those of the community. One effect of the change in the political atmosphere last autumn was a cooling off of the movement for colliery amalgamations. The Government, however, has made it clear that it will not scrap the Reorganisation Commission appointed by its predecessor, and the Commission has issued a warning to owners that they must bestir themselves. The merger of the whole Lancashire coalfield has fallen through owing to the difficulties of financial unification. On the distributive side some progress has been made, and a large scheme for co-operative

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selling in South Wales is on foot. Interest in the better utilisation of coal has also awakened during recent months.

The falling traffic receipts of the railways form a sharp incentive to cut costs, and have proved a spur to extensive internal reorganisation and closer working between the companies. The Minister of Transport has approved the pooling arrangements submitted by the L.N.E.R. and L.M.S.R. companies, and an arrangement between the G.W.R. and L.M.S.R. companies is foreshadowed. The pool already approved (after a public inquiry) affects 50 per cent. of the joint receipts of the two companies, and although a distinction is carefully drawn between pooling and amalgamation, many of the presumed economies of amalgamation should be secured. Certainly a big step will be taken towards the elimination of inter-railway competition. The displacement of labour will probably be serious, and the unions have staked out a claim for compensation for their members which, so far, has not been admitted. The question of rail and road competition will come to the front again with the publication, which is momentarily expected, of the report of the Salter Conference.

The cotton industry continues to weather the depression badly. The spurt given by currency depreciation is largely spent; Japanese competition, held off for a few short months by Japan's short-lived attachment to gold and by the Chinese boycott, has returned in full force. In all overseas markets exchange difficulties, tariffs and quotas are acutely felt; tariff protection in the home market affords only a slight counterpoise. The trade statistics are melancholy. Last year the exports of piece goods were less than in any year since 1864, towards the end of the cotton famine. Between 1924 and 1929 world production of cotton yarn increased by 24 per cent.; British production fell by 6 per cent. The world total last year was still 8 per cent. above that of 1924; the British figure was 31 per cent.

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below that of 1924. The world export trade in piece goods rose by 5 per cent. between 1924 and 1929; that of Great Britain fell by 16 per cent. Last year world exports were 37 per cent. below those of 1924; British exports fell off by 58 per cent. In 1913 Great Britain did 65 per cent. of the world trade in cotton goods; in 1924, 54½ per cent.; last year only 35½ per cent. This picture of rapid decline, fierce competition, and lost markets is the background of the internal demoralisation of the Lancashire industry.

The most considerable effort yet made to secure organised contraction and to adapt the size of the industry to its post-war volume of trade failed in June. The scheme of the Joint Committee of Cotton Trade Organisations for scrapping or immobilising surplus plant was decisively turned down. The Government had promised support if the idea of a statutory levy were supported by a substantial majority, but the final vote of the spinning section—to which it was proposed first to apply the principle—was overwhelmingly hostile. In the same month an attempt to combat weak selling by a production quota scheme in the fine spinning branch also broke down. There is now, probably, an end for some time to any large-scale co-operative effort at reform. The normal forces of attrition will slowly work themselves out. The industry's experience of rationalisation has not, of course, been happy. The individualistic spirit has been confirmed in its suspicions and conservatism by the history of the Lancashire Cotton Corporation, which four years ago was heralded as the beginning of a new era of large-scale amalgamations and mass production and mass selling in lost markets. The great combine has not justified the hopes set on it, and is now itself faced with the necessity of drastic re-organisation.

Just as the employers have been unable to agree on common policies of reconstruction, so the unions have dug themselves in behind traditional defences that changed

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circumstances have rendered untenable. Thirty-five years ago the authors of *Industrial Democracy* declared that "the machinery for collective bargaining developed by the cotton operatives, in our opinion, approaches the ideal." It seemed to them a perfect blend of democracy and the expert, admirably contrived to give security and stability, which by "the uniform application of an identical method of remuneration throughout the whole trade leaves the able capitalist or energetic workman free to obtain for himself the full advantage of his superiority." The words read ironically now that the self-regulating machine has stopped, and the common rule has been submerged by a return to individual bargaining more characteristic of the 'forties than of post-war industry.

The spinning section of the trade is working without governing hours and wage agreements, but labour conditions remain generally intact, although isolated inroads have been made, and the employers are about to make an extended attack. In the manufacturing section the sequence of events has a distressing fatality. After a long series of abortive negotiations and strikes,* popular resentment among the weavers undid all attempts to introduce by consent the labour-saving system of increasing the number of looms worked by each weaver. Irritated by the delays, and by the way in which the rank and file of the operatives had thrown over their leaders, the employers moved for a general wage reduction. This, in April, the unions refused to entertain, using the not unreasonable argument that wage cuts alone would not bring prosperity, and that the workers alone should not be called on to make sacrifices so long as the employers made no effort at reform. Individual employers were, however, taking things into their own hands and applying lower wage rates, and their central body could not withstand the pressure behind it. On June 11 all wages and hours agreements were

* See THE ROUND TABLE, No. 82, March 1931, p. 392.

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ended, and the field was left open to each individual employer to go his own way. The rot had not then gone far, and the unions by a little manoeuvring might have compromised on a moderate reduction and saved their agreements. But they would neither strike nor negotiate without the assent of the rank and file, who in two ballots failed to give a decisive mandate either way. It was not until the end of July that the leaders dared to risk an appeal to the employers for negotiations. By that time whole districts had cut wages, the reductions varying capriciously from one mill to another, and ranging from 1s. to 2s. 9d. in the pound on earnings, which among the weavers are only exceptionally more than £2 a week. In the earlier weeks the operatives sporadically put up resistance, only to find their jobs filled by the unemployed who gathered at the mill gates. But resentment is intense, and the reopening of the county negotiations was accompanied by the outbreak of a surprisingly successful local strike at Burnley, where 22,000 operatives came out, and in which non-unionists as well as unionists were compelled by mass picketing to cease work. The negotiations broke down on August 9, in an exasperated quarrel on the question of the reinstatement of the operatives displaced by strikes; the unions, however, had still to meet the employers half-way on the amount of the wage reduction to be accepted. On August 11 the Weavers' Amalgamation declared for a county strike of the weaving mills. At the moment of writing the temper, no less than the way to compromise, is still to be discovered. .

The result is, perhaps, what might be expected of an industry in which there is a large surplus of productive capacity, and a large surplus of labour, and in which long-continued depression has made both employers and workers desperate. Once a few firms began to cut wages the market was quickly upset, and firms which had no wish to interfere with wages were compelled in self-defence to do so, although they might realise that in the end there

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would probably be no lasting increase in the volume of business to go round.

The problem of the contracting industries, of which the cotton trade is so painful an example, is the main theme of the five industrial surveys of Lancashire, Merseyside, the north-east coast, south Wales, and south-west Scotland, which have been prepared by the universities of those areas, and published by the Board of Trade. These attempt an estimate of the surplus labour that is likely to remain when the general crisis has passed, and each report comes back to the central point that, if these areas are not seriously to decay, new sources of occupation must be found outside the old staple industries on which their populations have so long been dependent.

POSTSCRIPT.

Since this article was written, the Conference on Road and Rail Transport have issued a completely unanimous report. The Conference consisted of the heads of the four big railways and four representatives of the commercial road services, with Sir Arthur Salter as chairman. The Conference took £60 million as the amount annually spent on the roads, and they suggest that this sum should be borne by the different classes of mechanically propelled vehicles in the following proportion, the amount to be paid in the form of licence duties and petrol tax: £23,500,000 is allocated to commercial vehicles (about £2,500,000 more than they pay at present), and £36,500,000 to private cars and other kinds of passenger conveyance. The principle upon which this apportionment rests was based mainly on petrol consumption and ton mileage, but allowance was also made for other considerations, such as speed and unlimited franchise of the road as compared with the extra wear and tear caused by the heavier vehicles. No increase in the licence fee for the smaller lorries would be involved, but the amount paid by the heaviest type would be enormously increased—hitherto the maximum duty has been fixed at 5 tons, heavier vehicles not having been contemplated when the present system of licence duties was adopted. Want of space prevents our describing the other proposals.—
EDITOR.

CANADA

I. PERSONALITIES AT THE IMPERIAL CONFERENCE

OTTAWA once before in its history played host to a gathering of the statesmen of the British Commonwealth, when the Colonial Conference met there in 1894, but never has it welcomed within its gates so many eminent personages as the Imperial Economic Conference of 1932 has brought together. Set in a broad wooded valley with the Laurentian hills as a background, it is a city of waters and trees, and the rich endowments of nature have been splendidly embellished by human skill operating through the taste of private individuals and the Federal District Commission, an organisation generously subsidised by the Federal Treasury, which has girt the city with broad drives and boulevards and laid out a series of beautiful parks. The Canadian capital therefore provides an admirable setting for the Conference, and with the working quarters in the Parliament Building situated on a massive bastion of rock overlooking the Ottawa River, and living quarters in the nearby Château Laurier, as fine a hotel as North America can boast, the delegates have been given living comforts and working conveniences such as could not be matched in London itself. By general agreement the physical preparations of the Canadian Government for the Conference were perfect in every detail, and it remains for the chosen delegates of the Commonwealth to justify the care, that had been expended on them, by the successful application of their intellectual powers to the problems before them.

The personnel of the Conference comprises a variegated array of political talents and business and administrative experience, but inevitably a fruitful outcome depends upon the statesmanship of the heads of the various delegations,

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and therefore some appraisal of their personalities and careers may be apposite.

Mr. Richard B. Bennett, the Canadian Premier, as both the originator and the Chairman of the Conference, has the first claim to consideration. Born of United Empire Loyalist stock in the province of New Brunswick in 1870 he is the architect of his own fortunes. *Res angusta domus* compelled him to begin earning his living as a teacher at an early age, but when he had saved some money he was able to attend the law school at Dalhousie University and qualify for the bar of New Brunswick. After practising for a few years at Chatham, N.B., an offer of a partnership in the leading law firm in the rising western city of Calgary opened opportunities for the development of his talents as an advocate, and before he was forty he was leader of the provincial bar of Alberta. What time he had to spare from the claims of a large law practice he gave to politics, and after serving first as a member of the legislature of the North-west Territories and then as leader of the Conservative Opposition in the Alberta legislature, he entered the Federal Parliament as member for Calgary at the reciprocity election of 1911. In his first Parliament his competence as a debater made him a man of mark, but he differed from his party leaders, first on their railway policy and then on their plan for a coalition Ministry, and so in 1917 he withdrew from public life and for the next eight years devoted his energies to his law business and large industrial properties in eastern Canada which had been bequeathed to him by a friend of his youth. However, in 1925 he re-entered the Federal Parliament and speedily asserted himself as one of the ablest parliamentarians at Ottawa. There was no serious opposition to his claims to the leadership of the Conservative party when Mr. Meighen resigned it in 1926, and his aggressive strategy in opposition paved the way for the Conservative victory of July 1930, which brought him the Premiership of Canada in his fifty-ninth year in the prime of his powers.

It has been Mr. Bennett's lot to hold office during one

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of the worst periods of economic stress that Canada has ever known, and even his sternest critics admit that no statesman could have spent his abilities more unsparingly in the service of his country than he has done in the last two years. Endowed with a fine physique, his tremendous energy, his driving power, his ingrained habits of industry and his capacity for quick decision constitute invaluable qualifications for the Premiership, and in Mr. Bennett's case they are reinforced by a wide experience of large business affairs and a special knowledge of banking and of the pulp and paper industry. He has persistently disavowed any pretensions to mastery of the science of economics and, scorning theoretical doctrines, has prided himself on his preference for a practical approach to all problems. He has also been a staunch devotee of protectionism on the ground that it is the only possible policy which can save Canada from economic vassalage to the United States rather than from any theoretical belief in its merits as a fiscal creed. Time was when he was rated the most perfervid Imperialist in Canada, and his vehement advocacy in the campaign of 1930 of the principle of economic nationalism embodied in the "Canada First" policy need not be construed as proof that he has shed his early zeal for the preservation and consolidation of the great political society known as the British Commonwealth. He may find himself hampered from giving full play to his own convictions about Imperial economic policy by the nature of his political support, which is drawn chiefly from industrial elements, never prone to view with equanimity the curtailment of their precious tariff privileges; but he will never admit that he countenanced any policies inimical to the real interests of the Commonwealth. A skilful and experienced debater, he is too rapid in his delivery and too prone to improvisation on his feet to be an orator of the first rank, but he has a gift of forthright utterance which invariably commands public attention for his speeches. His political enemies attribute to him Mussolinian proclivities and an unwillingness to trust his

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colleagues and subordinate officials with responsibilities, and the opinion prevails in his own party that if he would acquire the art of devolving to others petty tasks which minor officials should easily handle, he would have more time for cool reflection and would reach maturer judgments than are now possible under so heavy a burden of varied cares. A man of few close personal friendships, he is a respected rather than a popular figure, but he has the faculty of commanding the loyal devotion of all whose duties involve close relationship with him. In regard to the personnel of his own delegation, Mr. Bennett has decided to follow the practice adopted by British Premiers at other conferences, namely to bring to the council board from time to time such of his Ministers as are concerned in their administrative duties with the problems under discussion.

The British delegation is a team of varied attributes and political antecedents, but there is no reason to suppose that the harmony that has been maintained in the Cabinet from which it is drawn will not be preserved at Ottawa. Its leader, Mr. Baldwin, represents the best type of progressive Conservative who, by his transparent honesty of purpose and generous outlook on social and economic questions, commands the confidence of the British public in a degree enjoyed by no contemporary politician. He is a believer in protection as essential for the economic salvation of his country, but he appraises the virtues of a tariff mainly in the light of its efficacy as an instrument for breaking down the protectionist barriers which have reduced international trade to a feeble trickle. He has an admirable temper for a negotiator at a conference such as this, and has an almost unique gift for converting opponents to his own way of thinking. Mr. J. H. Thomas, the Dominions Secretary, represents the Labour element in the National Government, and to no Conservative Minister does he yield in his ardour for Imperial economic co-operation. Mr. Runciman is the representative of Liberalism and in his hands will be most of the actual tariff bargaining which has to be undertaken ; his admirers assert

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that he has the best combination of business and political brains in Great Britain, and, if he has not completely abandoned his faith in free trade doctrines, he freely realises that their application to British fiscal policy has ceased to be practicable in a protection-ridden world. It is wholly fitting that the name of Chamberlain should have a place at this fateful Conference, and Mr. Neville Chamberlain, the Chancellor of the Exchequer, brings to it the Imperialist zeal which has become a family tradition, and an extensive knowledge of financial and fiscal problems. Lord Hailsham represents the more reactionary element of the Conservative party, as Sir Philip Cunliffe-Lister does the younger school, and both of them, while disposed to push a tariff policy to greater extremes than their colleagues and less concerned about the maintenance of satisfactory trade relations with countries outside the Commonwealth, will not press their views to a point which might cause any breach in the ranks of the British delegation.

Mr. Stanley Melbourne Bruce, the leader of the Australian delegation, has touched life on many sides. Born in Melbourne of a rich mercantile family, of Scots blood, he got his university education at Cambridge where, if he did not gain high academic honours, he won distinction as an athlete by rowing in the 'Varsity boat in 1904. Called to the bar, he never practised seriously, but after acquiring a fine war record in the grim years following 1914 he was, thanks to his ample means, free to contemplate a political career. Starting in public life as a protégé of the celebrated Mr. W. M. Hughes, he soon displaced him in the affections of the Nationalist party of Australia and became Premier in 1923. As head of a coalition Government he guided the destinies of Australia through six troubled years until he fell out of favour with the voters and was badly defeated at a general election in 1930. For two years he was out of politics, travelling abroad, but now he is back in office, not as Premier, but as one of the dominating figures in a Ministry recruited from the new-born political party which bears as its title "United Australia." Ten years of public

life have ripened Mr. Bruce's powers to a wonderful extent, and the inexperienced novice of 1922 who delivered halting speeches with a diffident mien has been transformed into a mature and skilful politician who as a speaker could hold his own in any company. He has been suspected in his native land of being more of an Englishman than an Australian, but the grounds for the charge are superficial and he has always combined a passionate devotion to the ideal of the Commonwealth of nations with a zealous guardianship of Australia's national rights. In his economic views he is a firm believer in a moderate brand of protection, but both his intellectual prepossessions and his business interests as a partner in an importing house make him deeply averse to the extravagant protectionism which the Labour party of Australia sponsored, and his influence has been steadily exerted for its modification. He can be relied upon to further all reasonable schemes of Imperial economic co-operation. Upon this subject he has definite, clear-cut, views which he is wont to advance with forceful emphasis. His colleague, Mr. H. S. Gullett, is an ex-journalist and an authority upon immigration, irrigation and correlated problems. Sharing as he does Mr. Bruce's views upon the tariff and other problems, he has already, as Minister of Customs, made a substantial contribution to the liberalisation of Australian fiscal policy.

Mr. Joseph Gordon Coates, the leader of the New Zealand delegation, shares with Mr. Bruce the honour of a splendid war record, but he was denied the advantages of a university education, and from his early youth pursued the avocation of a farmer in the north island of New Zealand. Elected first to the House of Representatives in 1911 at the age of thirty-three, his political career was interrupted by his war service, but soon after his return from Europe he was taken by the late Mr. W. F. Massey into his Cabinet and gained administrative experience in different offices. The death of Mr. Massey in 1925 opened the way for his elevation to the Premiership, and one of his first duties was to represent his country at the Imperial Conference of 1926. His

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Ministry had an easy life until the great depression descended upon New Zealand, when a gradual erosion of its popularity ended in a severe defeat at the polls in 1930. A spell as Leader of the Opposition followed, and the Premiership was once more in sight when he patriotically agreed to join the National Government formed by his chief rival, Mr. G. W. Forbes. In it he ranks as second in command, and when domestic problems prevented the presence of Mr. Forbes at Ottawa, he became head of his country's delegation. A man of fine presence, he would be the last to lay claim to the possession of any meteoric gifts of intellect, and he has marked deficiencies as a public speaker. But he has a fund of vigorous industry and practical good sense which constitutes no mean equipment for a Dominion statesman. He has all the cautious outlook of the born countryman, and will never be tempted by rash adventures in wild social and economic experiments. He is primarily interested in the fortunes of the farming community of New Zealand, and he would, it is believed, be prepared to keep New Zealand's fiscal barriers against British goods at a very low level, provided, however, that New Zealand is given more and better preferences for her farm produce in the British market. He has also emerged as a zealous protagonist of currency reform on some plan which will have the effect of raising commodity prices and bettering the fortunes of the embarrassed farmers of New Zealand.

It is, however, no disparagement to Mr. Coates to suggest that his colleague, Mr. Downie Stewart, despite the handicap of a physical disability which compels him to use a wheeled chair, will make a more important contribution to the deliberations of the Conference. A barrister by profession, and a gallant soldier in the war, Mr. Stewart learnt politics at the knee of his sire, who was also in his day a prominent politician. Entering politics himself in 1913, he has for many years been reckoned the best political brain in New Zealand, and is the intellectual mainspring of the National Government, in which he holds the dual

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offices of the Ministries of Finance and Customs. There is no greater authority upon the economic and political problems of New Zealand, and M. André Siegfried paid him the compliment of seeking his collaboration in writing his book *Democracy in New Zealand*, as did Professor Le Rossignol in another work styled *State Socialism in New Zealand*. In his outlook Mr. Stewart might be classified as a Liberal-Imperialist, and he brings to the council board an acute mind, a charming personality, and a whole-hearted zeal for the economic consolidation of the Commonwealth.

Of very different antecedents and temper is Mr. N. C. Havenga, the Finance Minister of the Union of South Africa, who heads its delegation. An intimate comrade of General Hertzog since the far-off day when he left his studies in 1899 as a stripling to share with him the hazards and hardships of a hopeless struggle against the might of Great Britain, his experiences of the war years in which he was severely wounded and taken prisoner, are said to have left bitter memories. Entering the Union Parliament in 1915 as a member of the Nationalist party, which his old commander had founded, his natural flair for politics soon brought him to the front, and, when his party came to office in 1924, nobody else was seriously considered for the important Ministry of Finance. South Africans of British stock have been disposed to suspect him of a dangerous lukewarmness with regard to the British connection, but while he has steadily supported his leader in his efforts to secure a complete emancipation for South Africa from the leading-strings of Downing Street, he has always declared that she must remain a loyal partner in the Commonwealth. A capable administrator of the national finances and a competent public speaker, he has been a firm advocate of a protective system which would give South Africa her share of secondary industries, but he is also essentially a realist who knows that for some time to come South Africa must depend for prosperity upon her primary industries, and that a policy of economic isolation which would

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under the acquisition of profitable export markets is unthinkable for her. He is also an unswerving champion of the gold standard and its restitution in countries which have abandoned it, and he would fight to the bitter end against the schemes of various schools of currency reformers who regard the gold standard as an anachronism. His two colleagues, Mr. Fourie and Mr. Grobler, partake of Mr. Havenga's memories of the South African war, and both belong to the extremist wing of the Nationalist party; but they lack their colleague's abilities and political insight, and will in the main no doubt be content to follow his lead at the Conference.

At the head of the Indian delegation is one of the most distinguished of Indian statesmen in the person of Sir Atul Chatterjee. A graduate of Cambridge, he has spent the best part of his life in the service of the Government of India, and has occupied a series of high positions; he was for a period a member of the Viceroy's Council, and only recently laid down the office of High Commissioner for India in London. He is a cultured man of liberal outlook with a wide experience of public affairs, and has always been a firm upholder of the British connection. With him are associated Sir George Rainey, a Scot who has had a distinguished career in India, and was lately Minister of Industry and Commerce in the Viceroy's Cabinet, Sir Padamji Ginwala, a Parsee, who has served as Chairman of the Indian Tariff Board, and Said Haji Abdul Haroon, a Moslem merchant from Karachi, who is a member of the Legislative Assembly of India.

The Irish Free State delegation have come in the rôle of watchful observers rather than as active participants in the Conference; at their head is Mr. Sean O'Kelly, a veteran of the Sinn Fein movement, and with him are two younger politicians, Mr. Sean Lemass and Dr. James Ryan.

Newfoundland is represented by Mr. F. C. Alderdice, an Ulsterman who, fresh from a decisive triumph of his party at a general election, had scarcely settled down in

office when he had to leave for Ottawa, and a small delegation from Southern Rhodesia is headed by its Premier, Mr. H. W. Moffat, a nephew of the great explorer, Dr. Livingstone, who, through long residence north of the Orange River, has a complete familiarity with the needs and problems of his country. Altogether there have gathered at Ottawa an impressive band of British statesmen and, if the Conference fails, it should not be from lack of political experience and wisdom.

II. THE BROADCASTING PROBLEM

A RADICAL step was taken in respect of radio broadcasting at the last session of Parliament when an Act was passed giving effect to the principle that "broadcasting should be placed on a basis of public service," and that the stations providing such service should be owned and operated by one national company organised and controlled by the Government.

This legislation was based on the report of a Parliamentary Special Committee appointed early in the year to consider the report of a Royal Commission on radio broadcasting under the chairmanship of Sir John Aird, President of the Canadian Bank of Commerce, which, after an extensive investigation, delivered its findings to the Government in September, 1929. The delay of more than two years in following up the so-called Aird Report was due not merely to the change of Government which took place in 1930, but also to the litigation over the constitutional question raised by the province of Quebec, as to the right of the Dominion to legislate with regard to radio broadcasting. Quebec's contention that the subject was one which fell, in part at least, within provincial jurisdiction was, however, rejected by the Judicial Committee of the Privy Council in a judgment delivered in February 1932, and thereupon the Dominion Government proceeded without delay. It is of interest to note that the judgment, like that of the same Court in the recent case on the regulation of aviation, laid special emphasis on the fact that

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Canada was a signatory of an international convention with regard to wireless (signed at Washington in November 1927), and declared that such a convention could not be distinguished from a treaty with foreign countries; the obligations arising under which the British North America Act specifically provides that "the Parliament and Government of Canada shall have all powers necessary or proper for performing." This necessarily involves, the judgment declares, the right to legislate with regard to radio broadcasting so as to bind all the inhabitants of the Dominion, since in no other way could the Dominion guard against infringement by its nationals of the stipulations of the convention.

As the recommendations of the Parliamentary Special Committee largely followed those of the Aird Report, it will be well to begin with the latter. The terms of reference of the Aird Commission were :

To examine into the broadcasting situation in the Dominion of Canada and to make recommendations to the Government as to the future administration, management, control and financing thereof.

The system which the Aird Commission found in existence was one of private enterprise, except in Manitoba where the stations were owned and operated by the provincial Government. Full jurisdiction over the administration of all radio matters in the Dominion, including the licensing and control of broadcasting stations and the granting of receiving licences was vested in the Minister of Marine and Fisheries, and the Dominion maintained a free inspection service which included the detection and elimination of interference caused by faulty power systems. There was also provision for the subsidising of private commercial stations deemed worthy of financial assistance, but this had never been given effect to except in the case of the province of Manitoba, where half the receiving licence fees had been granted in aid of the provincial system. The number of broadcasting licences in effect in 1930 was 78 private commercial and 9 amateur, a total of 87 ; and there were, in 1929, about 297,000 receiving licences.

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The outstanding features of the evidence given before the Commission were, it declares, (1) the tendency for advertising to bulk too large in the programmes offered, and (2) the foreign source of the majority of programmes. The reason for the undue amount of advertising is financial. The lack of direct revenue to the private commercial stations from the entertainment provided for the public forces them to resort to advertising as a means of revenue. The result is not merely an undue insistence on the merits of certain tooth-pastes and corn-plasters, but "the crowding of stations into urban centres and the consequent duplication of services in such places, leaving other large populated areas ineffectively served." The foreign source of the majority of programmes is explained, of course, by the proximity of the United States with its largely similar language and its great development of the technical and social possibilities of wireless. Nothing impressed the Commission more than the danger of the private enterprise system resulting in tens of thousands of Canadians taking their ideas and their tone from so-called entertainments provided by foreign commercial agencies, whose sole pre-occupation is to give the public what it wants, because their sole objective is profit through advertising. Nothing impressed the Commission more than this danger unless it was the potentialities of broadcasting as an instrument of education, not merely in the sense of academic instruction, but in providing the right kind of entertainment and informing the public on questions of national interest. Particularly in a country of the vast extent of Canada, with so many people living more or less isolated lives, the Commission felt that broadcasting could be made "a great force in fostering a national spirit and interpreting national citizenship."

Such were, according to its Report, the chief considerations "on the merits" which led the Commission to recommend in favour of placing broadcasting "on a basis of public service." There was also, it should be added, the fact that it found, amid considerable diversity of opinion

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on various phases of the subject, "unanimity on one fundamental question—Canadian radio listeners want Canadian broadcasting." There was almost entire unanimity, also, among the various provinces; with the exception of Quebec and New Brunswick, all expressed themselves as "ready and willing to enter into negotiations with the Government of Canada and the Governments of the various provinces with a view to the organisation of radio broadcasting on a basis of public service." Quebec and New Brunswick both declared themselves in favour of a definite policy being established by agreement between the Dominion and the provinces, but insisted that jurisdiction lay with the provinces and not with the Dominion. This, of course, was prior to the ruling of the Privy Council in favour of the Dominion.

In view of this large measure of unanimity, the Aird Commission recommended, *inter alia*, in favour of broadcasting being placed on a basis of public service, the stations providing the service to be owned and operated by one national company working in collaboration with a provincial authority in each province which should have full control over programmes in its own territory. A series of high-power stations throughout the country was recommended, supplemented where necessary by stations of lower power in local areas. Direct advertising was to be prohibited, and specified time was to be made available for educational work. Funds were to be provided from the revenue produced by licence fees, rental of time on stations for programmes employing indirect advertising, and a subsidy from the Dominion Government.

The two-year interval between the filing of the Aird Report and the appointment, following the Privy Council judgment, of the Parliamentary Committee, was marked by the active prosecution of the debate between the advocates of private enterprise and the champions of public ownership and control. On the one side were ranged organisations representing the station owners, the manu-

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facturers of radios and the advertisers, and on the side of such bodies as the Canadian Radio League and the Canadian Congress of Labour, practically all the educational authorities and others.

So thoroughly had the question been canvassed that at the hearings of the Parliamentary Special Committee appointed early this year to consider the recommendations of the Air Report brought out little that was new in information or argument. On the side of private enterprise the chief considerations urged were that to forgo the revenue derived under the present system from advertising would mean an undue cost to the public if programmes equal to those now provided are to be maintained; that the present system was already alive to the educational potentialities of the radio and was ready and able to extend its service in this direction as desired and, in any case, that there was no more reason for the State to control radio broadcasting than to control magazines or the daily press; that a public ownership system would inevitably mean less progressiveness and less keenness to take advantage of new developments; that the science of radio was only in its infancy, and that it would be unwise for large capital expenditure to be made by the Government which new inventions—the perfection of television was particularly emphasised—might presently render more or less useless.

As against these arguments, it was urged that the system of financing by means of advertising alone could not provide programmes of the quality and range that should be provided; that the present private ownership system meant duplication in the more populous sections of the country and neglect of outlying districts; that a purely commercial system, whose main consideration was necessarily profit, could not be expected to make radio broadcasting the servant of education as it might and should be made; that "the air" was, so to speak, a national resource, and a national resource which could be made a powerful instrument of education and enlightenment, and that it should not be

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should not be private interests to be exploited for private gain.

The questions that evidently assumed the greatest importance in the minds of the Committee were those of cost and of the best method of realising the potentialities of radio broadcasting as an instrument of education. On the question of cost the evidence was decidedly conflicting. The Aird Report estimate was a capital outlay of about \$3,225,000 and an annual expenditure of about \$2,500,000. The sources of revenue suggested were a licence fee of \$3.00, rental of time for a limited amount of "indirect" broadcasting (i.e., the mere mention of the name of the sponsor as distinguished from a description and crying up of the sponsor's products), and a subsidy from the Dominion Government of \$1,000,000 per annum. The opponents of public ownership, on the other hand, estimated an initial capital outlay of \$5,400,000 and an annual expenditure of \$5,725,000. As regards revenue, it was urged that not more than \$1,500,000 could be realised from licence fees, and that if direct advertising were prohibited, the revenue from rental of time would be practically nil, with the result that there would be an annual deficit of \$4,200,000 unless the licence fees were increased to at least \$7.00 per receiving set. No definite pronouncement was made by the Committee as to which set of figures it accepted, but it is to be noted that it varied the suggestion of the Aird Report that all "direct" advertising should be prohibited, recommending that advertising be limited to 5 per cent. of each programme period. Another consideration besides that of revenue which led to this decision was that, unless advertising were allowed, to at least a limited extent, American industries interested in selling goods in Canada would have a decided and unfair advantage over their Canadian competitors.

But the question which overshadowed all others in the minds of the Committee was that of making the most of

radio broadcasting as an agency of education and enlightenment. Striking evidence was given of the possibilities in this direction. The Director of the Department of Extension of the University of Alberta told them of 2,000 people studying Canadian history one night a week, including a considerable number of the 70,000 Ukrainian inhabitants of the province who, of course, were at the same time improving their knowledge of English; of programmes of Ukrainian folk-songs and dances arranged by an Edmonton Ukrainian choir; of 2,000 people studying French under a university professor of French two afternoons; of an indignant protest from a large group of Calgary business men because the broadcast was not in the evening, as several hundred residents of Calgary were anxious to take the course. A letter written in French from a French-Canadian mine-operator in a country district gives a vivid picture of the service that is being rendered:

You would be interested if you could look in on us during one of your French lessons. The men under my charge are a mixture of French and English. We all come up from the mine at 4-45 p.m. so as to be ready for your lecture at five o'clock. The Englishmen are learning to speak French and the Frenchmen are learning to speak more correctly. We use pencils and note-paper and our discussion goes on for half an hour after you have stopped talking. I wish also to say how much the service is appreciated in my own home, where my children have an opportunity of hearing our language spoken correctly.

Similar courses were conducted in English literature, economics, advances in science, international affairs, practical farm problems and other subjects, while programmes of good music and good plays were also regularly given. It was the considered opinion of the university authorities that, from the point of view both of primary and of adult education, satisfactory results could only be obtained by making radio broadcasting a national service. In the field of primary education it was felt that no commercial organisation, however intelligent and beneficent, could achieve what has been done in the State of Ohio,

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where under the State Department of Education there are more than 6,000 schools equipped with receiving sets, and every day the children put away their books at certain periods and listen to travel talks by great explorers, lessons in geography by people who know the country under discussion, little historical dramas, musical appreciation, talks on science by expert teachers, and the like. As regards adult education—and it was emphasised that the wise use of leisure will be one of the greatest social problems of the future—it was pointed out that the only hours that are worth much for courses of instruction are evening hours, which naturally, are the "peak hours" from a revenue point of view for a commercial system which depends for its existence upon advertising.

Views of this kind clearly made a deep impression on the Committee, supported as they were by evidence of growing apprehension in the United States about the effect of what is virtually a private commercial monopoly of radio broadcasting in that country. A large and representative number of educational organisations, the American Federation of Labour, and 1,100 daily newspapers have all been waging war on the Radio Corporation of America and the commercialisation of the air. Mr. Hoover in 1924, when he was Secretary of Commerce, declared that it was "not conceivable that the American people will allow this new-born system of communication to fall exclusively into the power of any individual group or combination."

American experience served to confirm the Committee in the view to which the bulk of the evidence in general seemed to point, namely that radio broadcasting is essentially "a natural monopoly," and that the only question is whether the monopoly should be granted to private interests or retained by the State. That position reached, there was, in view of the evidence, only one answer which the Committee could give—that the monopoly should be exercised by the State itself. It was suggested that there should be a compromise solution—

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ownership by a private corporation representative of the railway companies and other large interests, together with supervision and control by a government commission. The decision of the Committee, however, was against any such half-way house. The result was a clear-cut recommendation in favour of the principle of State ownership control and operation.

Legislation following closely the recommendations of the Committee was passed practically without opposition. It constitutes a Canadian Radio Broadcasting Commission which is to have power "to regulate and control broadcasting in Canada carried on by any person whatever." Power is given to acquire existing private stations, to construct such new stations as may be required, to foster the establishment of small stations with local coverage, and in brief to take the steps necessary to ensure that there shall be adequate broadcasting to all parts of Canada, irrespective of the density of population. Complete control of programmes is vested in the Commission, which is to be assisted by a deputy commissioner, and an advisory council in each of the provinces. As regards finance, the Commission is limited to the revenue from receiving and private broadcasting licence fees, and from rental of time for advertising, which is not to exceed 5 per cent. of any programme period. The permission of a limited amount of advertising is intended, besides bringing in revenue, to prevent discrimination against Canadian manufacturers in favour of their American competitors.

The new legislation has been well received by the press and the public, and it may be assumed that it has the approval of the great majority of the people. Among the reasons for such approval, not the least significant is the underlying feeling that, good friends as we desire to remain with our great neighbour, we must live our own life and shape our own future.

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July 1932.

AUSTRALIA

I. THE ECONOMISTS' REPORT

THE quarter under review has been full of exciting political and constitutional experiences for the people of Australia. The struggle between the Commonwealth and New South Wales Governments and the measures resorted to by each, the dismissal of Mr. Lang by the Governor of New South Wales, general elections in three States, the supersession of Labour Governments in the two largest States and the accession of a Labour Government to power in Queensland, the Privy Council decision in the New South Wales Legislative Council case, the minor but piquant situation in Victoria, where the absent Premier and a faithful remnant of Ministers sought the confidence of the electors upon the main plank of the Opposition programme, while the acting-Premier and the main body of the Cabinet appeared to be trailing in the tracks of Mr. Lang—these were enough to satisfy the keenest and most exacting appetite. In the present economic situation and in view of the integration of policy and finance demanded by the Financial Agreement, the complexion of government in every State is a matter of concern throughout the Commonwealth, so that State politics are of Australia-wide interest. The implications for the federal system of the measures which the Commonwealth Government applied to Mr. Lang, and the constitutional aspects of the dismissal of a Ministry, matters which in other circumstances would characteristically have played a major part in the parliamentary and electoral

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battle, were submerged; what was at stake was so immediate and so pressing as to leave little time or room for constitutional issues.

The month of April opened with a conference of Premiers convened by the Commonwealth Government to consider what steps could be taken to assist in the solution of the unemployment question. A small committee of economists, Treasury officials and business men, was set up to make a preliminary economic and financial survey, and the result was a report which covered the ground of fundamental causes, the effects of remedial measures hitherto undertaken, prospects and plans for the future. The extent of unemployment was illustrated by the fact that 28 per cent. of trade union members were out of employment. The basic fact was that the present overseas price of Australian exports was only 32 per cent. in gold, 44 per cent. in sterling and 57 per cent. in Australian currency, of what it had been in 1926-7. Reviewing the measures taken, the Report referred to the "Premiers' Plan"* of 1931, and the Committee was satisfied with the Plan but only moderately satisfied with the way in which it had been carried out. The Plan contemplated a reduction of the total deficits for the current year to £14.65 million. But this reduction would not be realised: deficits of £18,000,000 must be faced. In the sphere of adjustable government expenditure (*i.e.*, other than interest) substantial reductions had been made, ranging from 15 per cent. in New South Wales to 29 per cent. in South Australia; in the particular item of wages and salaries, the average reduction ranged from 12.8 per cent. in New South Wales to 20.5 per cent. in Victoria. The most complete achievement of the Plan was the reduction of interest, ranging from 25 per cent. to 33 per cent. Outside government expenditure, reductions in the cost of production had been effected by the reduction of interest, somewhat counteracted, however, by defects in the moratorium

* See THE ROUND TABLE, No. 84, September 1931, pp. 892-895.

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legislation of some States, which required the mortgagor to show cause, and by a tendency in lenders to raise rates on renewal of loans. But it was part of the scheme of the Committee of Experts advising the Premiers in 1931 that there should be an all-round reduction of 10 per cent. in real wages (as distinguished from nominal wages) as part of the conditions necessary to bridge the gap between costs and prices. This had not, however, been given a trial, and the inaction of State authorities had led to an average increase of 8 per cent. in real wages, in the case of those in employment in the industries governed by these awards. The net result all over Australia was that on the average there had been no reduction in real wages at all, and therefore no contribution from that source to the absorption of the unemployed in profitable production.

Turning to the future, the Committee found that indications pointed to total budget deficits of £22,000,000 for 1932-33, and they considered it necessary that immediate consideration should be given to steps necessary to bring that amount down to £12,000,000. They pointed to the formidable debt of £42,000,000 on Treasury Bills. As yet this had served to sustain rather than to raise internal prices, as the money had been found through the repayment to the banks of advances by private borrowers and the absence of any effective demand for accommodation by producers and traders. But such methods of public finance endangered currency control, and the disastrous results of the loss of such control were vigorously portrayed in the Report.

For establishing equilibrium between costs and prices the Committee's recommendations were a judicious mixture of reduced costs and a high rate of exchange. The first was to be sought by carrying out in their completeness the proposals of the 1931 Plan—real wages generally must be reduced by 10 per cent. below the level of 1928, and the wage-fixing authorities must give effect to economic conditions; where interest was not reduced, compulsory

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measures must be taken. The raising of prices should be attempted by authorising the Commonwealth Bank to manage the exchange rate, in the light of economic conditions.

The required fall in nominal wages would (the Committee pointed out) be made less severe by a rise in the rate of exchange setting in operation forces tending to raise all prices and thus to offset the fall in prices resulting from lower wages. We should thus have attained the lower level of wages with a steadier level of prices. The degrees of the reduction of wages and of the increase in the rate of exchange would need to be chosen with a view to a minimum dislocation in budgets and in nominal wages.

As regards the immediate burden on budgets through increased exchange for internal payments abroad, the suggestion is made that,

if the rate is properly chosen the revenue will in a year or two increase to a degree more than sufficient to pay the added cost of the exchange. The increase would cause some apprehension in London and a fall in the price of Australian stocks, but these fears would be allayed as business activity improved, and as budgets approached a balance, just as in Britain after the departure from the gold standard.

As against an exclusive resort to either of the alternatives of an all-round reduction of costs with a view to returning to parity with gold or sterling, or of raising the local price level by means of the rate of exchange, the Committee considered that—

The logic of facts might well impose the middle course suggested, just as it imposed Britain's departure from gold. Any policy will involve in present circumstances difficulties and dangers. These may be the greatest if we drift without a definite aim or plan, incurring a series of growing deficits, destroying confidence in the currency and its guardians, and exhausting the country's reserves of working capital.

But an essential condition was the existence of a central reserve bank free from both the fact and the fear of political

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control and prepared to administer its part of the policy adopted in the general interest.

Turning to the measures available to Governments for the purpose of effecting an immediate absorption of unemployed, the Committee reported that every reason was against an extended programme of public works, but means of equipment for the storage and handling of wheat in bulk and the planting of soft woods, and the proper care of native forests appeared hopeful avenues for reproductive activity. The removal of hindrances to industry, such as the tariff and the numerous restrictions imposed by obsolete regulations and industrial awards, would provide openings for labour and capital. As prices and costs were brought into harmony, and while private capital was still timid of venturing into undertakings, Governments might give an impetus to investment by loans, secured by debentures, to private enterprise holding out prospects of future development on a large scale. But unless overseas prices improved none of these measures could deal adequately with unemployment, and the community was faced with the need of providing sustenance. While sustenance should in general be for work done, it must be recognised that it cost more to provide sustenance by intermittent work paid at basic wage rates than it did to provide mere sustenance. The best hope of turning sustenance money into payment for work was in rural industries, where much could be done if labour and capital were cheap. As sustenance payment might be used to provide labour at a low cost, the temptation to farmers to dismiss employees in order to obtain subsidised labour might be obviated by local organisation. It might also be possible to arrange for subsistence farming by families in receipt of sustenance. On a block of, say, five acres, equipped with a temporary dwelling and domestic stock by the farmer on whose land it was situated, the tenant would raise most of his subsistence and give a certain amount of work on the farmer's land. "An ultimate object of the scheme, apart from the attempt to

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provide subsistence for the unemployed man with a family to support, would be the creation of a land-owning peasantry, the absence of which has been a marked feature of the Australian countryside in areas climatically suited to it."

The Prime Minister accepted the principles of the Report and when the Premiers' Conference met on April 14 he proposed that the Commonwealth and the States should co-operate, on the basis of the conditions laid down, in obtaining from the banks—recourse to the public was not deemed feasible—a substantial sum, "say, £10,000,000," to be expended on objects contemplated in the Report. But Mr. Lang would not even discuss a project which, he said, exploited the sympathy of Australians for the unemployed and used it as a lever to strike down all the industrial conditions that the workers had built up in health, time, and money, over forty years. "Having started on the road to restriction and deflation," he said, "there is no logical end to it. It can be stopped in one way only, and that is by Governments and people saying 'We will not move an inch further along the road we have been going.' " It was the interest payments that were pulling Australia down. And with this Mr. Lang departed for Sydney. The defeat of the Labour Government on a vote of want of confidence left Victoria at first unrepresented, and when, a dissolution having been granted, Mr. Tunnecliffe, the acting-Premier, appeared at the Conference, it was to reject the conditions laid down by the Prime Minister. The Nationalist Premier of Queensland hesitated on the question of exchange management, and, with a general election pending, was alive to the political dangers that faced a Ministry pledged to further wage reduction. In the result, the major matters of raising the exchange and reducing wages were postponed until a further conference to be held in June, when the Victorian and Queensland elections would be over. But arrangements were effected by which each of the States other than New South Wales could borrow its assigned quota out of an

The Economists' Report

amount of £1,200,000, and the Commonwealth would contribute an amount equal to this quota. No participation by the New South Wales Government in any loan effected by the Commonwealth being at the time possible, the Commonwealth undertook to provide and spend in New South Wales what would have been the quota of that State in a £1,800,000 scheme, i.e., £600,000.

Apart from politics, there were characteristic reactions to the Economists' Report. One forecast was immediately fulfilled—the belief that the exchange rate was to be raised forthwith from £125 to £135 caused a fall in the price of Australian securities in London, and there was a quickened demand for exchange on London in order to get money out of Australia before the threatened impost became effective. With one important exception, the banks were opposed to the proposal and commercial opinion was the same. There was scepticism about freedom from political control, seeing that the proposal itself was one of policy. Labour organisations and the public servants declared themselves against wage reduction, and looked to “taxation on higher incomes” and “changes in monetary policy.” The original plan was attacked from both sides as having aggravated rather than mitigated the situation, on the one side because of its deflationary character, on the other because legislative interference with private contracts had cut away security from beneath the feet of lenders and encouraged repudiation by debtors rather than an honest will to meet obligations, so that lack of confidence closed the avenues for private investment and enterprise and public faith in government credit: the result must be an increasing dependence of economic life upon resort by Governments to the banks, and socialisation resting upon the growing insecurity of the financial basis. Another view of the situation accepts the principle of the Premiers' Plan, that the catastrophic fall in prices requires adjustments other than those which would have taken place automatically as a result of mere economic pressure, but

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challenges claims or attempts to extend them to cover the whole gap between the prices of 1929 and those of to-day. In 1929 Australia was still living in a boom condition with inflated ideas of values, and the usual accompaniment of extravagance and inefficiency ; it would be as unwise as it is unnecessary to resort to exchange control for the elimination of a salutary corrective. The real aim to which government planning should be directed is the balancing of budgets both on a short and a long term view of the situation. This requires a highly skilled reorganisation of public administration, and a review of the several State services, whether they be strictly "governmental" or in the nature of "socialistic enterprise." Much capital would have to be written off to put the latter on a sound financial basis. But if this were done, and the management freed from political interference, the resulting economies and efficiency would soon make themselves felt in decreased expenditure and increased revenue. The charge of lost capital has to be borne in any case by the public account, and an amortisation scheme should be adopted for its gradual extinction. In some people's view, this reorganisation is the most urgent problem that Australian Governments have to face, and its accomplishment the most important contribution that Governments have now to make towards the restoration of credit and prosperity.

The Premiers' Conference resumed its sessions on June 28, attended by the new Premiers of New South Wales, Victoria and Queensland, just as this article was leaving Australia.

II. THE FALL OF MR. LANG AND THE STATE ELECTIONS

IN the last issue of *THE ROUND TABLE*,* an account was given of the far-reaching provisions of the Financial Agreement Enforcement Act. As soon as the High Court

* *THE ROUND TABLE*, No. 87, June 1932, p. 638.

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declared the Act valid, the necessary proclamation was issued under it to attach a part of the State revenue. The first to be attached was the income tax payable to the State. Taxpayers who had received assessments were directed to pay their taxes into the Commonwealth Bank in Sydney and not to the State taxation authorities. These instructions were for the most part readily observed by the taxpayers of New South Wales, but the Government of the State made every effort to frustrate the effective working of the Commonwealth law. The doors of the State taxation department were locked, and Commonwealth officers were refused access to the records. No notices of assessments were sent out, and the collection of income tax was therefore temporarily suspended. The Commonwealth Government then proceeded to put into operation those provisions of the Act by which the Commonwealth was empowered to obtain all the moneys of the defaulting State which were deposited with its bankers. Before the Enforcement Act came into operation the New South Wales Government had withdrawn from its bankers over a million pounds in cash and had deposited it in the New South Wales Treasury. The Commonwealth, therefore, could not expect to receive a sufficient sum from the banks to recoup itself for the payments it had made on behalf of New South Wales. But the amount involved in the demand on the banks was substantial. The position was complicated by the fact that part of the funds which had been paid into the banks represented moneys paid to the credit of the State Government for special purposes, such as, for example, moneys of suitors paid into the State Supreme Court.

The High Court sustained the banking provisions of the Enforcement Act by a majority of four to two. On April 22 the Court by a majority of five to one dismissed the State Government's application for a certificate of appeal to the Privy Council against the decision upholding the validity of the Act. This was in accordance with the

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established practice of the Court to determine finally in Australia constitutional questions arising between the Commonwealth and the States.

Unable to pay any money into the bank without at once losing it to the Commonwealth, the State Government paid all money received into the Treasury, and instructed the heads of departments and other civil servants to follow that practice. As the New South Wales Audit Act requires that moneys received to the credit of the State should be paid daily into a bank account, this action of the Government appears to have been a breach of the law. On April 26 the State Parliament met. It was generally expected that a Bill would be brought down to amend the Audit Act and so render lawful this failure to observe its provisions. But this was not done.

On April 29 the Enforcement Act was amended by the Federal Parliament so as to increase the powers of the Commonwealth Government and add to the list of attachable revenues. The Commonwealth also made a formal demand that the State Commissioner of Taxation should hand over all assessments and other documents to the federal officers so as to enable the Commonwealth to collect the income tax. This demand was not fully complied with until May 12. On May 5 a further amending Act was passed by the Federal Parliament which added a part of the receipts of the State railways and tramways to the revenues which the Commonwealth could attach. Meanwhile there had been further defaults by the State Government for which the Commonwealth had to assume responsibility, and the total sum due by New South Wales to the Commonwealth was declared by the High Court to be £2,029,432 on May 4.

The State Government, by using the cash at the Treasury, was able to pay its civil servants. But it failed to make payments of child endowment moneys and pensions to widows and superannuated civil servants, and announced that it might have to suspend entirely all "social services"

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payments such as the dole to the unemployed. The Prime Minister asserted that these actions of the State Government were unjustified, and were only an attempt by the Premier of New South Wales unfairly to fasten on the Commonwealth the blame for a position which he had himself created. The Commonwealth Bank, it was stated, would provide means for the payment of all State revenue due to particular individuals, and the Enforcement Act was amended so as to facilitate this. But Mr. Lang refused to use the banks.

Following further resolutions of the Commonwealth Parliament, on May 5 proclamations were issued to attach the following State revenues : death duties, stamp duties, licences and fees from the liquor trade, revenues from Crown land, motor registration and licence fees. The next step was a Commonwealth proclamation requiring all civil servants, whose duty it was to receive any part of the attached revenues, to pay into the Commonwealth Bank whatever moneys came into their hands from these sources. This proclamation operated as from May 11. A circular issued from Mr. Lang's department on May 10 directed that, notwithstanding the Commonwealth proclamation, all moneys collected should be paid into the Treasury. The Commonwealth proclamation appears to have been almost universally disobeyed, owing, in part, to pressure brought to bear by the Ministers in charge of the various departments. One State officer, who endeavoured to carry its requirements into effect, found that his directions were countermanded by the Minister for Lands, and he himself was ordered to "go on leave."

Meanwhile the Parliament of New South Wales had not been idle. A Mortgages Taxation Bill was introduced in the Legislative Assembly on May 11. This measure, which was described as a capital levy, provided, among other things, that all mortgagees or their attorneys or agents should be liable to pay a tax of 10 per cent. of the amount secured by their mortgages within fourteen days

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of the commencement of the Act. Failure to do so would result in the mortgages becoming vested in the Crown. The Bill passed the Assembly where an obsequious majority had long been accustomed to obey all the behests of the Premier. In the Legislative Council some supporters of the federal Labour group voted with the Government, and the Bill was passed by 48 to 43 in the early morning of May 13 after an all night sitting.

The outlook seemed hopeless chaos, especially for the banks and insurance companies which had advanced huge sums on mortgages. One insurance company alone would have had to pay in cash over one million pounds. In some quarters it was thought that the Bill was one which by his instructions the Governor was required to reserve for the Royal assent. Before this had been determined, however, the Federal Parliament met and passed through all its stages a Bill designed to nullify and render inoperative the New South Wales measure. Later in the same day came the dramatic news that the Governor, Sir Philip Game, had dismissed his Ministers and sent for Mr. Stevens, who had recently succeeded Mr. Bavin as leader of the Opposition, and commissioned him to form a Government.

The dismissal of the Government came as a surprise, as up to that time the Governor had refused to intervene, despite considerable agitation that he should do so. The correspondence which led up to the dismissal commenced on May 12, when the Governor asked for the circular of May 10 (already referred to). A copy was forwarded to him, and he then wrote to the Premier.

I have received the copy of the circular for which I asked you. It appears to me that the terms of this circular direct public servants to commit a direct breach of the law as set out in proclamation No. 42 of 1932. . . . I feel it my bounden duty to remind you at once that you derive your authority from His Majesty through me, and that I cannot possibly allow the Crown to be placed in the position of breaking the law of the land. I must ask you, therefore, either to furnish me with proof that the instructions in the circular

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are within the law, or, alternatively, to withdraw the circular at once.

Mr. Lang replied, stating that the circular "represents the decision of Cabinet, and no doubt was arrived at after consideration of the primary duties of maintaining the essential and social services of the State. The only reply you can be given is that the circular cannot possibly be withdrawn."

Subsequently on the afternoon of May 13 the Governor, after an interview with Mr. Lang, wrote again :

The position as I see it is that Ministers are committing a breach of the law. Into the aspect of justification it is not, as I conceive it, my province to inquire. My position is that if my Ministers are unable to carry on essential services without breaking the law, my plain duty is to endeavour to obtain Ministers who feel able to do so. As I have already pointed out to you in my letter of the 12th instant, it is impossible for me to put the Crown in the position of being a party to illegal action. If Ministers are not prepared to abide by the law then I must state without any hesitation that it is their bounden duty, under the law and practice of the Constitution, to tender their resignations.

To that letter Mr. Lang replied : "If your letter of to-day's date means that you are requesting the resignations of Ministers, you are hereby informed that your request is refused."

Later in the same afternoon Sir Philip Game replied :

Your letter informing me that Ministers are not prepared to tender their resignations has just reached me. In view of this and of your refusal to withdraw the circular, I feel it my bounden duty to inform you that I cannot retain my present Ministers in office, and that I am seeking other advisers. I must ask you to regard this as final.

The new Government obviously could not meet the House, and it at once asked for, and secured, a dissolution. Mr. Stevens made it clear, however, that under his Government New South Wales would work harmoniously with the rest of the Commonwealth, and that there would be no more talk of deliberate repudiation. The Commonwealth

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Government suspended the operation of the Enforcement Act, and the State financial administration became normal again. The elections were held on June 11. They resulted in a sweeping victory for the joint forces of the United Australia party (the successor of the old Nationalist party) and the Country party. In the last Parliament the Labour Government had 55 supporters and the Nationalists and Country party 35. In the new Parliament the Government has 66 and the Labour Opposition only 24. Both in the city and in the country, constituencies which for years had consistently returned Labour members are now represented by Government supporters. Several former Ministers lost their seats, and Mr. Lang himself only narrowly escaped being defeated by a candidate supporting the policy of the Federal Labour party. It is not to be overlooked, however, that of 1,322,513 votes cast, 531,422 were cast for Mr. Lang's supporters. The most important issue at the elections probably was whether or not New South Wales was to abide by the decisions of the Premiers' Conference and so play its part in co-operation with the other States in a united attempt to overcome the present financial and economic difficulties. But the result of the poll must not be interpreted simply as a popular endorsement of this policy. It is to be attributed largely to a desire for stable and honest government, to a hope that with a change of government unemployment may diminish, and to a strong belief that the Government led by Mr. Lang was corrupt and rapidly bringing the State to complete economic ruin.

The new Government is led by Mr. Stevens. His Ministry is a composite one selected from both the United Australia party and the Country party.

The events of the last two months in New South Wales have well illustrated Dicey's statement that "federalism means legalism." The contest between the Commonwealth Government and the Government of the State was fought out in Parliament and the law courts. Despite

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some arrogant threats of civil war by supporters of the State Government, hot headed language on both sides, and some anxiety among more level headed people, there was no violence of any kind.

The dismissal of the Lang Government has also shown the close interdependence of the several States of the Australian federation and the dominance of the federal law. A State Government was dismissed by a State Governor because it persisted in requiring its servants to contravene a federal law prescribing the manner in which, in the peculiar circumstances, they should carry out their duties. Constitutional theory in Australia has now travelled far from the early doctrines of the immunity of State instrumentalities and non-interference by the Commonwealth in State affairs. Federal control has been becoming steadily more pronounced and more extensive. The Financial Agreement has had an effect, greater perhaps than was anticipated, in promoting a large measure of practical unification in Australia. Even before 1929 its financial supremacy was giving the Commonwealth a greater power over the policies and Governments of the States than the mere words of the Constitution would indicate. It is now clearer than ever that, if it is to pay the piper, the Commonwealth will insist on calling the tune.

In the middle of the New South Wales electoral campaign the Judicial Committee of the Privy Council delivered its reserved judgment on the question of the abolition of the New South Wales Upper House. Its decision affirmed that of the majority of the judges both of the Supreme Court of New South Wales and of the High Court. The dismissal of the New South Wales Government's appeal means that the Legislative Council cannot now be abolished except in the manner provided by the New South Wales Constitution Amendment Act, 1929, that is, by referendum. The decision serves to emphasise the fact that the Legislature of New South Wales is different from the Imperial Parliament. It has a purely

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statutory origin, and its powers are prescribed by the Imperial Acts which created it, and particularly by the Colonial Laws Validity Act, 1865, Section 5, which requires that laws making alterations in the Constitution must be "passed in such manner and form as may from time to time be required by any Act of Parliament or colonial law for the time being in force."

Victoria

In Victoria the attitude of the Labour Government to that part of last year's Premiers' Plan which required a reduction of government expenditure, produced a political crisis before the Premiers' Conference met. The reductions in pay in the public services had been enacted for one year only, and would expire on June 30. The Labour Conference and its executive had declared against their renewal and threatened with expulsion all Labour members supporting them. On the meeting of Parliament in April the Government was challenged by the Opposition to state its attitude, and the reply that the time was not yet ripe for a statement on the financial policy of the ensuing year was treated as an evasion of the issue. A vote of want of confidence was carried on April 13, and Parliament was dissolved. The acting-Premier (Mr. Tunnecliffe) proclaimed his determination to protect salary and wage earners against further attacks and claimed credit for having imposed on public servants the smallest reduction in Australia. For the future, the Government was prepared to re-enact the reduction of the salaries of judges, Ministers, members of Parliament, and the higher classes of public servants: the position of others it would refer to a classification board. He protested against the "cruel burden" of overseas interest, and declared for immediate and unanimous action by Commonwealth and State Governments to bring about by negotiation a reduction of such interest on the same basis as that already effected in internal interest, the money so

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released to be applied to the provision of additional relief works. Further, provision was to be made for the unemployed by the flotation of an internal loan, by increased taxation of "about 10 per cent." on existing rates, by further protection against eviction or foreclosure of mortgages, and generally by a policy for "stimulating trade and industry by keeping up the living standards of those in employment instead of lowering these standards and thus reducing the purchasing power of the community by further reduction in salaries and wages." The leader of the Opposition (Sir Stanley Argyle) and the Leader of the Country party (Mr. Allan) declared that the Government policy was one of double repudiation, in that, having secured a reduction of interest under a scheme of which the reduction of public service charges was a part, they now proposed to abandon that part of the scheme; and in the second place, because the proposal for "negotiations" with regard to the reduction of overseas interest was a mere cloak for arbitrary action upon it. The election contest was short and vigorous, and one of its features was the large number of young men among the anti-Labour candidates. The poll took place on May 14. The result was a decisive defeat of the Government, three of whose members lost their seats. In the new Parliament there were 33 "United Australia" members, 14 Country members, one Independent, and 17 Labour members, as against 18, 14, 3 and 30 in the old Parliament.

Electors probably paid less regard to the particular items of rival programmes than to the broad considerations which had guided them at the federal elections in December. Commonwealth Ministers appeared on the platform with Opposition candidates, and Mr. Scullin spoke in favour of the State Government. Events at the moment in New South Wales were showing what might happen when Commonwealth and State were pursuing conflicting policies. Mr. Tunnecliffe's attack was directed even more against the Commonwealth

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Government than against the State Opposition; and though he had Mr. Scullin's support, there was a suspicion that he was closer to Mr. Lang, and dread of a Lang era in Victoria. Even before the defeat of the Ministry, it was known that there were wide differences in the Cabinet. The policy speech of the acting-Premier was followed by two resignations on the ground that it broke faith with the Plan, to which the Premier and his Government had been parties. Then came a series of disclosures. The Premier, Mr. Hogan, who was in England, had cabled to the acting-Premier that the demands of the party executive revealed it as the enemy of State and people, and he insisted that the policy speech must stand by the Premiers' agreement. The cablegram was not laid before the Cabinet, and the policy speech was a plain disregard of its terms. Two more members of the Government declared themselves loyal to the Premier, and remained in the Cabinet at his request "to protect our policy." The election went on, with a Government policy which the head of the Government had roundly denounced. Neither of the Opposition parties put up a candidate against Mr. Hogan who was re-elected to his former seat in the Assembly without opposition. Immediately the result of the election was apparent, the Government resigned, Mr. Hogan communicating the decision by cable and telephone to the Lieutenant-Governor. The leader of the Opposition, Sir Stanley Argyle, had no difficulty in forming a Ministry in which he included the leader and two other members of the Country party, and Mr. J. P. Jones, Minister of Public Works in the late Government, who had dissociated himself from the Labour party as soon as the intention to depart from the Premiers' Plan became manifest.

Queensland

Unlike the elections in New South Wales and Victoria, the election in Queensland was the ordinary election due

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to effluxion of time. The Nationalist victory of 1929 was due in part to fortuitous circumstances, and a term in opposition, if it did not consolidate the Labour party, at least patched up its differences. The Government's policy of aiming at the balancing of budgets by retrenchment and the abandonment of costly adventures, was the cause of much unpopularity, and for many months before the election the general opinion was that the Moore Ministry would be defeated. In his appeal to the country, Mr. Moore could promise nothing more than a relentless pursuit of a policy which he deemed essential to save its credit and maintain its economic life, and to keep faith with the Premiers' Plan. The measures which would be necessary would be the more drastic as the proceeds of former loans, from which deficits had been provided for, were now exhausted. The policy speech of the Leader of the Opposition, Mr. Forgan Smith, flattered the hopes of the discontented, without incurring the odium of Langism. He would review the Premiers' Plan, taking note of the zeal which the Government had shown in wage reduction, compared with their tender regard for fixed money claims, and he promised relief from the interest burden "where it was too great for industries or individuals to carry successfully." Labour policy would be to promote stabilisation in internal economy. It was necessary to increase the capacity of the people to consume and purchase more. The 44 hour week would be restored, the reductions in wages and benefits would be abandoned, social services would be improved and extended, and funds would be made available to meet requirements for workers' dwellings and homes. The Bureau of Economics established for informing and advising Governments, would be abolished as an irksome imposition upon industry, and a Bureau of Industry, on which trade unions, agriculture and industry generally would be represented, would enable investors in the £2,500,000 loan for reproductive works, which a Labour Government would raise, to feel

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assured that the funds would be used in a proper and effective manner. The relief of taxation was not forgotten, it would result from a policy of reducing unemployment and setting up greater industrial activity. Before so attractive a programme, the austerity of Mr. Moore fared as Mr. Bavin's did in New South Wales in 1930, and the position of parties in the new House is Labour 33, Nationalist 27, Independent 1.

Mr. Forgan Smith's difficulties will begin at once. He cannot borrow except through the Loan Council, and if he could, his prospectus would attract few lenders. Among Government supporters there are some who will require to recognise that promises have served their purpose when they have secured an electoral majority, and others who frankly demand "a reduction of the interest burden to nil." It must be remembered that there is no Legislative Council in Queensland, and nothing, therefore, to withstand the will of the Assembly. Mr. Forgan Smith had enough reputation for moderation for it to have been possible to think of a coalition Ministry when the issue of the election appeared indeterminate. But the definite Labour majority put that out of the question. The result will probably be a repetition of the battles in caucus and cabinet, and the ultimate cleavage in the party with its attendant expulsions that has marked the course of Labour in office in other States and in the Commonwealth.

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June 29, 1932.

SOUTH AFRICA

I. THE SESSION—AND AFTER

THE fourth session of the Union's sixth Parliament closed on much the same note as it had commenced on. It had been called in November to hear the Minister of Finance's ringing affirmation of his gold standard policy, and to pass a Financial Emergency Regulations Act, constituting him, for a period, financial dictator for the maintenance of that policy. In the last days of the session, at the end of May, it extended the period of dictatorship, and set the seal of a party majority on the Report of the Select Committee, which had advised, as everyone knew it would, against any disturbance of the South African pound's "safe anchorage" in gold. In the intervening months much had happened. The grimness of the country's economic plight had been intensified, and the price paid in subsidies to keep the farmers content with the Government's policy had been increased; there had been endless discussions of currency questions inside Parliament and out; but the net result had merely been the hardening of party lines of division with regard to an issue which had far better have been kept out of the arena of party strife. A change of currency policy in South Africa will, it would seem at present, only come as the result of a change of Government.

The session which ended on May 27 was singularly barren of legislative achievement. Perhaps it could not well have been otherwise. For about half of it the discussion of the currency problem monopolised attention; for the rest, the Government was largely preoccupied with the

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economic difficulties of the country and the pacification of disgruntled followers. It could hardly have been expected that it would push on with avoidable legislation that would raise first-class issues, and add to the troubles which were already so potent in murdering sleep. Probably the most important measure that passed into law was the Native Service Contract Bill. That Bill was dealt with in the last number of *THE ROUND TABLE*.^{*} It brought into relief the divergence between the Northern and Southern viewpoints in native policy, and thereby engendered much heat—in some cases between members of the same party. A Liquor Bill, aiming at increased facilities for sale, especially to natives, was withdrawn in face of the threat of vigorous opposition. The Coinage Bill, that was to replace the pound, the shilling and the penny with distinctive South African coins, was not proceeded with; no doubt its reintroduction will depend in part on what takes place at Ottawa. Among the measures that also passed into law was a crop of private Bills, and the usual series of "control Bills" so typical of our time—mealie control, tobacco control, meat trade control, dairy industry control—all hampering freedom of trade and some making inroads on the pockets of the general taxpayer. For the rest, there was little apart from financial measures. These financial measures, however, attracted more than the usual amount of attention. They imposed heavy additional taxation—the total for the session was about £6 million—and they reduced the emoluments of State servants, including, of course, railway employees. Hence they put a severe strain on ministerialist loyalty, and in a critical division on one of the salary-reduction Bills the Government's majority fell to five. Three years ago a majority of twenty-five could, for most purposes, be counted upon.

As a result of these measures the Government was able to realise its object of a balanced budget—balanced, perhaps one should say, by way of qualification, in

^{*} *THE ROUND TABLE*, No. 87, June 1932, p. 669.

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anticipation, for present trade and revenue tendencies do not indicate that it is likely to be balanced in fact. Economic conditions in the Union have in recent months gone disturbingly from bad to worse. South Africa is now feeling the full force of the economic storm. It has chosen to meet it without seeking the relief that the abandonment of the gold standard might provide, temporarily at least, and, as a consequence, it is making heavy weather. Confidence has ebbed, initiative has dried up, the towns, no less than the countryside, are suffering most severely. While in 1929 importation was at the rate of £80 million per annum, in recent months the rate has been round about £25 million, an alarming decline, even when allowance is made for the fall in the gold prices of commodities. The customs revenue in the new financial year is so far about 25 per cent. below the estimate made only three months ago. There is every indication of the year ending once again with a deficit of two million pounds or more on general account, coupled with a railway deficit of from three-and-a-half to four millions. Apart from a world recovery, it is difficult to see how these deficits are going to be liquidated. The financial and economic prospect is indeed at present one of unrelieved gloom.

It is not to be wondered at, therefore, that Ottawa has come to be an almost magic word. Since the session ended, Mr. Havenga, our Minister of Finance, and two of his colleagues have gone to the Canadian capital. There are many in South Africa who look to the Conference for tariff preferences that will create new markets and enhanced prices for South African products. Others again cling to the hope that it will provide the occasion for a change in South Africa's present currency policy; one of the results of the discussions will, they hope and pray, be an Empire currency with the devaluation of the South African pound as a corollary.

Mr. Havenga is fully alive to the potentialities of the Conference, and may be counted upon to pull his very

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considerable weight in the attempt to take advantage of the present opportunity, knowing full well that, however doggedly some of his followers may mutter incantations to avert any threat to South Africa's "economic independence," they will, when it comes to the point, no doubt receive willingly enough such gifts as the Greeks may bring. His attitude on the tariff question is already well known. He has made it abundantly clear in Parliament, and recently in London. He hopes to encourage trade between the members of the Commonwealth, but not at the price of cutting off trade with other friendly portions of the world. His hope is for freer trade as such, within the Commonwealth first, and within a steadily widening area of the world next or, better still, at the same time. There will be few outside the ranks of the Empire Crusaders on your side of the water to quarrel with that ambition.

On the currency issue he is less comforting to the advocates of devaluation in Parliament and the country, for he has declared roundly that he will stand or fall by the 113-grain gold pound, and he is a man of his word. In London he has since justified that policy as a continuation of the consistent policy of Great Britain herself until circumstances became too much even for her. South Africa, he asserts, as the world's greatest gold producer, must in her own interests stand by gold, all the more so as her trade position enables her to maintain gold payments. In the terms of the Macmillan Report he is only prepared to recognise depreciation when depreciation has become a fact, and that day is not yet in South Africa. But closer reading of his speech shows that he is not impervious to argument. For any single country, or small group of countries, to attempt to regain prosperity by manipulating the currency would be disastrous, but if debtor nations as a body favour devaluation and are prepared to carry it out by really international action—why, that is another story.

There is one side of the currency question which has hardly been discussed in these parts, perhaps hardly

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realised. Ottawa may constitute a grave danger to South Africa. Many influential men overseas are advocating a policy of bimetallism. If that should be adopted at all widely, it would have most disconcerting repercussions on the gold industry, which, at the present time, stands alone between South Africa and disaster. However, we shall see what we shall see. Meanwhile it is a little unfortunate that hopes with regard to Ottawa have been pitched so high. The Conference cannot in any case achieve an immediate revolution in existing conditions; it can at best only lay the foundations of a new system. But possibly its indirect results may be greater than its direct results. Agreement at Ottawa should be a potent factor in stimulating that confidence of which we are all to-day so sorely in need.

If South Africa's economic *malaise* accounts for the extravagant anticipations cherished with regard to Ottawa, it also supplies the background for the consideration of important political developments which have been taking place in Natal. In the last number of *THE ROUND TABLE** an account was given of the emergence of the devolution or secession movement in that part of the Union, and of some of the factors that have led up to it. Undoubtedly it is an expression of the perturbation felt by Natal, conscious as it is of its distinctively British tradition, at what it regards as the anti-British policy and traditions of the existing Government. Yet it is the present economic maladjustment, from which Natal is certainly not suffering less than the rest of the Union, that prompts the eager desire to see or hear some new thing, and has thus provided the atmosphere that breeds disaffection. The devolutionists have secured an unexpectedly large backing of public opinion. They have not always been very precise as to what they want; at times the cry has been for the separation of Natal from the rest of the Union, at times for a change of the present unitary constitution to a federal

* *THE ROUND TABLE*, No. 87, June 1932, pp. 616 *et seq.*

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basis, at times for separation as a first step towards federation. Devolutionists have also been by no means lucid in explaining what they mean by federation, nor too diligent in examining its economic consequences for Natal. But the important thing is that they have held out the ideal of a substantial change—and it is a change that Natal wants, a change which will be the more acceptable if accompanied by the prospect of freedom from the “Dutch domination” of to-day. And so the movement has captured the public imagination, and spread like a veld fire through the land.

It was this situation that disclosed itself to the Natal members of Parliament (all but one of them belonging to the South African party) when they returned home from distant Cape Town at the end of the parliamentary session. They decided that the movement had become too strong for them to crush; they decided that they had to compromise. And so they came together and issued a statement in which they pledged themselves to the ideal of federation, undertaking to place Natal and federation for Natal before party allegiance, and to form a Natal federal group within the South African party, with its own caucus and its own leader. In return for this pledge they understood, so it would appear, that the devolutionists would definitely abandon all propaganda for separation.

But the pursuit of compromise does not always lead to tranquillity. Within a fortnight of taking their pledge the Natal members found themselves repudiated from two sides. The devolutionists indicated that they were not abandoning the separation ideal, and General Smuts, on behalf of the South African party, repudiated federation, and declared that he could not acquiesce in the *imperium in imperio* implied by the creation of a separate federal group within his party. The result of it all is the emergence of a definite cleavage in the South African party ranks in Natal. Most of the Natal members are taking their stand by General Smuts, but some at least will adhere to their federalist pledge, at the cost, if need be, of the severance

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of their present party ties. It would seem that on this issue Natal is likely to be acutely divided.

The move towards federalism in Natal is significant in relation to the general temper and present attitude of the people of that province—it is significant also in relation to the wider constitutional question known in South Africa as the provincial problem. When the four South African colonies combined to form a Union twenty-two years ago, the central constitutional question of a federal as against a unitary system was decided against federation, but as a concession to the federalists the Provincial Councils were established as definitely subordinate law-making bodies. The compromise has never taken root, and there are few who would envisage the permanence of the system in its present form. At some time or another South Africa will once again have to make the choice between a federal and an unqualified unitary system. In an earlier number of *THE ROUND TABLE** the events were recounted which led up to the Government's declaration last year in favour of the latter policy, i.e., for the abolition of the provincial system. The Natal agitation is in large measure a reaction against that declaration. It is the alternative policy, federalism, that Natal so earnestly desires.

But apart from Natal, the Government has been raising heavy weather with its abolition policy. Among its supporters, who are mainly country-dwellers, and as such well content with the provincial system, which tends to lay the burden of local government mainly on the shoulders of the town-dwellers, little enthusiasm has been evoked; in the Transvaal and the Free State there has indeed been active opposition. As a result, it appeared for a time as if the new policy would have to be abandoned, or at least put into cold storage. Then circumstances came to the Government's aid. The Free State Provincial Council found itself crushed by an overwhelming deficit. In desperation it passed a resolution asking the central Govern-

* *THE ROUND TABLE*, No. 85, December 1931, pp. 195 *et seq.*

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ment to take over responsibility for its administration. Apparently this was conceived as a means of bringing pressure to bear on the Government to come to its aid with a special subsidy. If that were so, the scheme failed. The bluff was called. The Government announced that it would accede to the request as framed, and has done so literally by virtually taking over the Free State. It has further made use of the opening thus offered to appoint a commission to devise an alternative system of local government to be applied in the Free State, or in any other province which may similarly be taken over. It would seem indeed to be part of the Government's policy to put a little gentle pressure on the other provinces in the form of a restriction of their subsidies, so that they may follow the Free State's example. It is clear, however, that these provinces are not going to surrender without a fight; the Nationalist majority in the Transvaal Provincial Council has voiced its defiance in no measured terms; abolition may in fact still be a very long way off. Meantime, however, the Commission has been constituted—not without difficulty, it is true, since no South African party man, nor anyone from Natal, was willing to act on it, and at least one prominent Nationalist similarly declined—but constituted it has been, and no doubt it will serve the purpose of conveying some aspects of the problem into the political background, at least for a time.

It remains to say a word about party prospects. During the session the Government maintained its position under heavy assaults, despite the fact that two of its supporters—one a Nationalist and one a Labourite—crossed the floor. On the feeling in the country in this respect some light has been shed by an important by-election recently held at Colesberg. Colesberg is a far-flung constituency covering several Karroo districts in the Cape Province. Up till the 1929 election it had been a South African party seat. In that year the Nationalists won it by a majority representing 10 per cent. of the total number of votes polled.

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On a very much larger poll, which included the newly-enfranchised European women, they have now retained it by a $3\frac{1}{2}$ per cent. majority. The reduction of the majority is of some importance from the South African party point of view, but the Nationalists have to their credit a far greater achievement in having held the seat at all. For the electorate consists almost entirely of sheep-farmers and railwaymen and their dependants. The sheep-farmers might have been expected to avail themselves of the opportunity to protest against the Government's gold standard policy, the railwaymen against the cuts in their emoluments. That the turnover of votes was in the circumstances relatively so small is an indication of the strength of nationalism in South Africa. That strength derives essentially from its sentimental appeal. The South African party sought to fight the by-election on economic issues. The Nationalists, apart from their efforts to counter that attack, and to arouse the never sleeping fear of non-European competition, relied on the stimulation among the Afrikaans-speaking voters, who overwhelmingly preponderate in the constituency, of a sense of their distinctiveness. General Hertzog addressed his eve-of-the-poll appeal to "Nationalists, Afrikaners" (and to most people in South Africa "Afrikaner" means an Afrikaans-speaking South African). Taking the Natal movement above referred to as his text, he urged them to rally in defence against the attack on everything that is Afrikaans. Eve-of-the-poll appeals may not turn votes, but they are often indicative of the prevailing mental attitude of those to whom they are addressed. Nationalism is securely founded in the memories of South Africa's unhappy past; it is maintained by a sentiment strong enough for the most part to repel the bread-and-butter arguments of economic distress. The South African party still has many weary marches to complete if it is to see the walls of Jericho come tumbling down at the general election which is due to take place two years hence. That realisation would seem to be the lesson of Colesberg.

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II. THE NATIVE ECONOMIC COMMISSION, 1930-1932

SHORTLY before the Colesberg election was lost and swun by appeals to Afrikaner nationalism at its crudest, and the fear of native competition in the railway service and elsewhere, a flood of light was turned upon the dark reservoir from which that competition emanates. Following on sporadic troubles in the latter part of 1929, all of which could be traced back to economic causes, Government appointed a Native Economic Commission to investigate, first and foremost, the social and economic condition of the Bantu in the larger towns. The long-awaited Report of the Commission appeared in May.*

The Report must be welcomed—but with some misgivings. It seems inadequate to the importance of the questions the Commission was asked to report upon. Unfortunately there are grounds for fearing that the compilation of the Report was too hurriedly performed. It has been generally hailed as a "fact-finding" commission, more perhaps because it has refrained from urging the adoption of any thorough native policy than because it has marshalled hitherto unknown facts in any quantity for the attention of the Union Government and its citizens. Too many of the "facts" have not been brought out; they lie buried in the evidence which, unfortunately, is not to be published, but is to be accessible only in the Union archives at Pretoria. Non-publication is, no doubt, not the Commission's fault. But it should have called for greater care on the part of the Commission to ensure that the gist of the important evidence was made available in the Report itself. It is really only in the addendum, by Mr. F. A. W. Lucas, that an adequate idea is given of the mass of valuable material which must be available in the evidence submitted from various sources. Again, it is only in this addendum, which is in many respects the most valuable part of the published Report, that page

* U.G. 22, 1932.

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references to the thousands of type-written pages of evidence are generally given.

This omission is very unfortunate, as many may wish to check and obtain further information on points which the Commission has raised. The "fact-finding" Commission has gone about its work too light-heartedly. For instance, it evidently thinks that the purchase of land by natives outside areas scheduled under the 1913 Land Act is worthy of mention—but it is not concerned to say how great (or how small!) these purchases have been. Again we read (in paragraph 60) that, "a case was mentioned to your Commission of a man, who had learned better methods from the Europeans, and produced a larger crop than his neighbours, who was killed, in order that the soul of husbandry which had settled on him could be distributed to the benefit of all, by the witch-doctor." By whom was this statement made, and how long ago was the incident referred to supposed to have taken place? The tale is a well-known "old-stager." If there is a modern authenticated instance, it is important that details should be made available. If there is not, it is equally important that the source of the statement should be given, in order that anthropologists may examine and dismiss it. Anthropologists are fully aware of the obstacles witchcraft places in the way of economic progress through natives relying on it rather than on improved methods to increase their crops, and through the discouragement to acquisition caused by fear that a jealous chief may accuse of witchcraft those whose wealth becomes obnoxious to him. But they are unwilling to give much credence to this other danger without more definite evidence.

The fashionable "agreement to differ" has also been widely adopted by the Commission. The Report is signed by all members, but it contains in its main text very numerous reservations. That is perhaps a useful method, for it does not break up the continuity of the argument. But it appears sometimes that disagreement is more funda-

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mental than is suggested when the main Report merely notes dissent and then resumes the even tenor of its way. One rather ludicrous example occurs in paragraphs 200ff. when "your Commission *unhesitatingly* affirms" what Dr. Roberts, a member of the standing Native Affairs Commission, immediately "finds himself unable to accept." Such statements must detract from the authority of the Commission's recommendations.

Nevertheless the report is worthy of grave attention. It is especially noteworthy that a commission, which is not predominantly negrophilist in the character of its personnel, should have reported so unanimously on the urgency of the native economic problems. The Report is all the more alarming for not being alarmist. It becomes clear in more than one place that the most imminent native problem is that of mass-starvation.

The Commission's terms of reference were to report upon :—

1. The economic and social conditions of natives, especially in the larger towns of the Union.

2. The application to natives in urban areas of the existing laws relating to the regulation of wages and conditions of employment and for dealing with industrial disputes, and/or the desirability of any modification of these laws or of providing other machinery for such purposes.

3. The economic and social effect upon the European and coloured population of the Union of the residence of natives in urban areas and the measures, if any, to be adopted to deal with surplus natives in, and to prevent the increasing migration of natives to, such areas.

4. What proportion of the public revenue is contributed by the native population directly and indirectly. What proportion of the public expenditure may be regarded as necessitated by the presence of, and reasonably chargeable to, the native population.

The Commission has very reasonably considered the first and third terms together, and just as reasonably reported that the urban native problem is not primarily an urban problem, but that "in the *economic* development of the reserves must inevitably be sought the main solution of the native economic problem."

Native Economic Commission, 1930-1932

It did not require a commission to point out that the South African native is poor. It may not, however, have been previously recognised that large numbers of natives are steadily growing poorer. Yet this is everywhere reported: in the Ciskei, the Transkei, in Bechuanaland, in the Transvaal. The diet of the South African native is becoming not more, but less, varied; mealies are no longer supplemented to the same extent by milk, and the consumption of meat is growing even more rare. As a result physical deterioration is marked:

You will see malnutrition stamped on the race.* . . . We have now throughout the reserves a state of affairs in which, with few exceptions, the carrying capacity of the soil for both human beings and animals is definitely on the downgrade; a state of affairs which, unless soon remedied, will within one or at the outside two decades create in the Union an appalling problem of native poverty.†

Memoranda submitted by the Director of Native Agriculture and by the late Mr. S. G. Butler (*Annexure 14*) show how inadequate is the surplus produce of the natives in a number of reserves, a surplus which, allowing only for a very moderate diet, must cover tax payments and the purchase of clothes and other necessities. It may be remarked that the surplus is more likely to have been over than under-estimated, while Mr. Thornton's estimates of the total produce are almost certainly too large.

The net result of these conditions is that there must be a considerable efflux of natives from the reserves to find wage-paid work, either on farms or in the towns. This relieves the pressure on the reserves, but it is doubtful whether the net effect constitutes an item on the credit side of the balance. It has been pointed out that:

The absence of males from their homes during the greater part of the year is invariably reflected in the cultural operations of the land and the resultant low yields. Even while the responsible male times his visits home to coincide with the ploughing and seeding season, agriculture suffers. It allows of no preparatory cultivation, nor does it enable him to take advantage of favourable rainfalls,

* See especially *Addendum*, 60-70.

† *Report*, 69.

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It necessitates leaving to the women and to juniors the major part of the work. There can be no organised system of working. The standard of agriculture, therefore, is low and there can be no development.

This, of course, makes it the more imperative for the migrant to remain longer in the town and earn more there. But the large scale movement of this necessarily unskilled (because casual and temporary) labour keeps down the level of native wages. Thus a vicious circle is set up connecting the two main aspects of the native economic problem, poverty in the territories and inadequate wages in the towns and in rural European employment, which it seems wellnigh impossible to break.

To what are the poverty-stricken conditions of the native territories mainly due? The Commission's answer is "over-stocking," which has already converted a large part of the Ciskei into a desert and is well on its way to make desert conditions general. The main avenue for attacking the problem, it holds, is by teaching the native to regard his cattle from an economic and not from a religious aspect. He must also be taught better agricultural methods in general, and must be provided with better facilities for disposing of his stock, and for costly cattle fencing. This is true—although a native society divorced from the cattle cult, with chiefs unable for lack of land to perform their primary economic function of providing land for their tribesmen, is not likely to be led easily to better things by educating the chiefs and then calling upon them to exert their customary tribal influence on their people. That is the suggestion in one part of the Report. It would seem to be unduly optimistic.

But the problem is not even as simple as this. The late Mr. Butler reported (see *Addendum*, 53) that though the Transkei was over-stocked, there was an insufficient number of oxen available for agricultural purposes. Over-stocking is not merely a function of the traditional importance of cattle in native society, it is a function also of the type of

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cattle owned and of a total insufficiency of land in the reserves for the needs of the native population in that state of development in which it is at present, and is likely to be for a long time to come. This seems to be recognised in the Report.

The provision of more land is also essential. The present yield of native agriculture and stockfarming is so low that the native areas will, with proper farming, be able to support a much bigger population than they actually do at present. But the introduction of better farming methods will be hampered in many parts by the congestion now existing, and it will be necessary to relieve the congestion.

It is, perhaps, something gained that a commission, reporting even as late as 1932, should note the economic as well as the moral necessity of fulfilling the promise of providing more land for native reserves made in connection with the Natives Land Act of 1913, which so drastically limited the rights of most natives to acquire land outside those reserves.

Besides the reserve natives, there are some 2,000,000 others who live on European-owned farms. Forbidden, by that Act of 1913, except in the Cape, to hire land outside scheduled native areas on any other basis than labour service, they mostly form a class of labour tenants, though in some districts hired labourers are more numerous. The Native Economic Commission has taken evidence as to the situation of these tenants. The most striking variations are reported. There are instances when "the native was required to work for a period of nine months during the year, as and when required by the farmer. In return for his services he was permitted to cultivate a strip of land . . . under $2\frac{1}{2}$ acres . . ." On the other hand, there are instances of fairly tolerable conditions. The Commission inclines to the opinion that labour tenancy is uneconomical both for the farmer and his tenant, since the tenant is able to reap but a small return from land which would give a much greater return if cultivated by the farmer himself with his more advanced European methods.

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This, however, presumes that the farmer would so cultivate his land if he was not forced to allow his labourer to use it. That is somewhat of an assumption. Dr. Neveling and Dr. Neethling have stated that, "in most cases the native's land should not be considered as a reduction in the area of the cultivated land of the farmer, but as an increase in the cultivated area of the farm as a whole." There is, however, no doubt that progressive agriculture requires the remuneration of the native labourer to be rather on the cash basis, and the Commission strongly recommends, in the first place, a strict insistence on written contracts, and in the second place, a gradual attempt to abolish the labour contract system. It is an ironical commentary that this Report should have been presented at a time when the legislature was engaged in passing the Native Service Contract Act, which is intended to stereotype a form of labour tenure in which, in the absence of a written agreement otherwise, the duration of the contract is presumed, and its extension is also presumed unless notice is given to the contrary; in which the contract is automatically renewed with the new owner if the farm be sold; in which, in the absence of a special agreement, the contract is regarded as broken if the tenant is absent for three months, or if another native from the same kraal breaks his contract, all members of that kraal are laid open to eviction. And the sanctions for these breaches of civil contract are criminal.

The remaining sections of the Native Economic Commission's Report are much less informative. Comparatively little is told of the economic and social condition of the urban native. In respect of this, its first term of reference, it falls far short of the recent independent report of Professor Leubuscher on *Der Südafrikanische Eingeborene als Industriearbeiter und Stadtbewohner*.* The Commission reports that a development of the reserves which will prevent large influxes of temporary labourers into the towns

* Jena, 1931.

Native Economic Commission, 1930-1932 will enable the urbanised natives to become skilled and thus earn higher wages. Subject to dissent by Mr. Lucas and Dr. Roberts, it also approves of the principle of the industrial colour bar, though that might be presumed to hamper the endeavours of the urban native in a way similar to the presence of numbers of reserve natives. On the question of the extension of wage determinations to natives, the majority Report is impressed by the difficulties in the way, the minute of dissent by Mr. Anderson, Mr. Lucas and Dr. Roberts, by the desirability of increasing native earnings in all possible ways. The latter very pertinently point out that "a country which believes in, and makes use of, a 'scientific tariff' should not be afraid of the use of scientific wage regulation." It may be suggested that both attempts at scientific regulation may be undesirable; for the rest, the Commission was not asked to pronounce any opinion on the Union's tariff policy.

The last section of the Report, on the face of it, would seem to show that taxation does not press unfairly on the native, for he contributes some £3,322,917 to the Union and provincial revenue, and is responsible for some £4,184,700 of public expenditure. But the statistical allocation on which this finding is based, seems to involve a very large amount of guesswork, and in general no opportunity is given for checking its working. Paragraph 1099, for instance, says barely, "*Licences*—the amount allocated to natives has been arrived at after a detailed examination of the items." In discussing the proportion of the expenditure reasonably chargeable to natives much use has been made of the "National Income Ratio." The share of the national income enjoyed by natives has been calculated at one-eighth, and the presumption has been made that, unless there are special invalidating circumstances, one-eighth of the several items of public expenditure should be debited to the natives. Assuming that the ratio is correct, it might be claimed that it is correct to employ this ratio

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all along the line. It can hardly be applied to parliamentary expenditure. Natives are debarred from sitting—and in most cases from voting—therefore, they may be presumed not to receive the benefits of equal representation with the Europeans, and certainly no part of the expenditure is returned to them in the form of parliamentary salaries.

The same holds good of other administrative expenditure, especially of that utilised, in the form of subsidies to wages, in attempting to promote a "civilised labour policy" at the expense of native employment. One magistrate expressed the opinion "that if the Masters and Servants Act were not enforced in that district, one quarter of the police force could be dispensed with there." What proportion of the police vote, necessitated by laws which every native believes are directly to his disadvantage, can be reasonably charged against those natives? (It should be said that, as a matter of fact, the Commission's estimate on the police vote is probably not excessive.) The task of apportioning the natives' fair share of taxation in proportion to the benefits they receive from Government is, if not impossible, one which requires far more acute and sustained attention than has, from all appearances, been given by this Commission. In any case, it is not the practice of modern States to tax the poorer sections of the community so highly as to ensure that they receive from Government only those strict benefits which they have themselves paid for. Nobody has yet thought of enquiring whether the South African farmer is under or over-taxed in proportion to all that Government does on his behalf.

But let that pass. For all its shortcomings, the Report is a valuable, though most disquieting, revelation of the inadequate black foundations on which white society rests. If it leads, in however tentative a fashion, to the strengthening of those foundations, the Commissioners will have earned the gratitude of both blacks and whites.

South Africa. July 1932.

NEW ZEALAND

I. THE GOVERNMENT'S PLAN

ON April 27, during the special session, Mr. Downie Stewart, the Minister of Finance, introduced his financial statement. Owing to the way in which the main items of revenue have continued to shrink and expenditure, *e.g.*, the debt services and the cost of exchange, has increased, there will be a gap between revenue and expenditure which is estimated at £8,300,000. The gap is to be bridged in the following manner.

	£		£
Reduction in salaries, wages and pensions	1,100,000	the discharged soldiers settlers mortgages (in which £10,500,000 of reserves are invested) by arrangement with the Bank of New Zealand, the National Bank of New Zealand taking a proportion ..	2,200,000
Abolition of subsidy on unemployment funds	1,450,000	Leaving what Mr. Stewart described as "a manageable deficit for 1931-1932" of	2,000,000
Assistance from highways fund ..	500,000		
Subsidies to local bodies to remain a charge on highways account ..	125,000		
Reductions in other items	325,000		
Hoover moratorium (if extended) ..	600,000		
From hypothecation for £2,500,000 of			
		Total ..	£8,300,000

The hypothecation, Mr. Stewart claimed, would afford the community a breathing space from further

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taxation, for it is clear that the remaining taxable capacity of the Dominion is limited. He pointed out that, in the three years ended March 31, economies and adjustments had been effected to the amount of £5,940,000 per annum, and that of the £2,976,262 savings recommended by the Royal Commission, £2,286,390 had either been effected or approved by the Government. "In addition," said the Minister, "relief to the Consolidated Fund will accrue from the following items":—

	£
Abolition of subsidy on unemployment funds	1,450,000
Relief to hospital subsidies from unemployment funds ..	200,000
Hoover moratorium (if extended)	600,000
Further reductions by railways	100,000
	2,350,000
Add savings in accordance with Commission's recommendations	2,040,000
Total savings and adjustments at present in sight for 1932-33	£4,390,000

The grand total of the relief to the Consolidated Fund over the period under review is, he pointed out, £10,330,000, of which approximately £2,500,000 has been obtained by various adjustments and the balance of £7,830,000 from economies. These figures indicate the strenuous efforts made to cope with the position.

These savings, however, do not satisfy the Chambers of Commerce. The Canterbury Chamber, in its May Bulletin, and the Associated Chambers of Commerce in a letter to the Prime Minister, published on April 19, called for far more drastic retrenchment in all departments, on the same scale as those which were being effected in commercial and industrial organisations. Unremunerative services must, they insisted, either be made to pay or abolished, and the elimination was suggested of any trading by government or local bodies which competed with that of private citizens and taxpayers. The Government has not accepted the recommendation of the National Expenditure Commission that the New Zealand division of the Royal Navy should go

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back to Admiralty control and that the annual contribution to the Singapore Base should be further reduced. It does not wish to see the work of construction there delayed.

Early in April the Government floated a loan of £5 million in London, but the response was disappointing. £4 million was for funding the Treasury bills that mature in June, the rest for financing the much-reduced programme of public works.

As regards the exchange problem, on April 29 a deputation representing the Meat Export Board, the Dairy Produce Export Control Board and other mercantile interests, waited upon the Prime Minister and the Minister of Finance. The primary producers, they said, felt that they were being robbed of the advantage of a high exchange for the benefit of another section of the community, and they asked that the exchange should be allowed to operate freely. Mr. Downie Stewart told the delegation that on the day of the general election the New Zealand Government had received a cable saying that unless the Government compelled the banks to remit to London £1,000,000 a month for the next twelve months, the position in London would become unmanageable. To meet this difficulty, it was necessary to constitute the exchange pool, as the banks had informed the Government that they could find the money needed in London only if they had control of the exchange. Had the suggestion for a high exchange been adopted, the Consolidated Fund would have had to find another £3,500,000 and the local bodies, which had large commitments in London, would have been called upon to pay thousands of pounds in exchange. By the end of June New Zealand's internal obligations would be substantially met, and he added that if the regulations of the pool, which he wished to abolish as soon as possible, were observed, it could be lifted by the end of that month and there would be no interference with regard to next season's exports. On June 14 the Prime Minister stated that the exchange pool would be done away with at the end of the

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month, and that there would be no interference by the Government with the exchange rates, that that matter could be left to the banks.

The Government published their statement of policy on May 7. It took the form of a full page appeal for the co-operation of the public on patriotic grounds. "The prosperity of New Zealand depends in the main," they pointed out, "on the price at which its primary produce sells in the overseas market." In 1931 our total exports were only £35,153,028 as compared with £56,188,481 in 1928, and this drop of over £21 million had occurred in spite of a substantial increase in production. To meet this situation, however, still greater production was needed. "The problem of the producer in the past has," the statement continued, "been that his costs of production have remained at a high level, whereas his income from his farm products has sadly diminished."

The Government's aim is to bring down the costs of production and reduce rent and interest charges, to remove difficulties resulting from previous legislation, to stimulate and increase productive industry, enabling it to absorb more and more of our unemployed. It is endeavouring to develop farming lands and to divert unemployed labour to them from the cities. The Unemployment Fund has enabled over 20,000 people to be given productive work in the country. The Government is also considering a scheme for subdividing large areas into small lots of from 5 to 40 acres on a community basis. The settlers will be assisted to build their homes and to get through the early stages. This policy was embodied in four main measures, the Industrial Conciliation and Arbitration Amendment Act, the Mortgagors and Tenants Relief Amendment Act, the National Expenditure Adjustment Act and the Unemployment Amendment Act. This legislation occupied the attention of the House for the greater part of the eleven weeks' special session, and the reaction to it is the main feature of the history of the quarter under review.

The Government's Plan

Compulsory Conciliation and Voluntary Arbitration

After a warm discussion Clause 2 of the Industrial Conciliation and Arbitration Amendment Bill,* which gave the Government power by Order in Council to exempt either wholly or conditionally, all or any particular class of the persons engaged in any industry from the operation of the system, was withdrawn. On the main features of the Bill, however, the Government was adamant. Eventually it became law with two important amendments, one giving unions the right, in the case of female workers, to apply to the Arbitration Court for an order fixing the minimum rate of wages, the other clarifying the section relating to piece work. There will, however, no longer be automatic recourse to that Court when the parties cannot agree, as there has been in the past. They must now in the first instance go before a conciliation council. If they settle their dispute there, the settlement will operate as an industrial agreement subject to any of the parties affected having the right to apply to the Court for total or partial exemption. Failing settlement, unless there is practical unanimity (*i.e.*, generally speaking a three-fourths or five-sixths majority of the assessors according to the number engaged) in favour of reference to the Court, existing awards or industrial agreements binding on the parties to the dispute are deemed to be cancelled.

Any industrial union or association of employers bound by an award or an industrial agreement in force on April 27, the date of the passing of the Act, may apply for a new award or agreement if the old one has been in force for not less than six months, and has an unexpired term of not less than three months. If no new award or industrial agreement is made, the existing award or agreement will be cancelled. In future, awards or agreements may

* THE ROUND TABLE, No. 87, June 1932, p. 688.

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contain provision for the payment of workers at piece rates and also by results. Even where there is no specific provision, the employer may still agree with the worker to have piece work payment, provided that it does not result in the worker receiving less than the minimum wage provided for in the award or agreement. The character of the debate was so fiery that the closure was put fifteen times at various stages and there were over 66 divisions altogether, two Labour members being suspended. The Government majorities varied from 11 to 20, and the third reading was carried by only 15, some of the Coalition members voting with the Labour party against the Bill.

It was urged by Labour that the complete abandonment of the principle of compulsory arbitration, which had worked well for forty years, would certainly lead to industrial disorder; that it amounted to a proclamation by Parliament that in future the workers would have to rely upon unconstitutional methods to redress their grievances, that they would be dragged down to the level of coolies; that insidious attacks would be made upon wage rates and working conditions throughout New Zealand, and that the worst form of sweating would be introduced under piece work contracts.

The reverse side of the shield was presented to the House of Representatives by the Prime Minister, and by Mr. Masters, the Minister of Education, in the Legislative Council. If, said these Ministers, there is to be greater confidence in industry, more capital invested in it and encouragement to employers to maintain larger staffs and to develop industries, there must be fewer irksome conditions and less harassing interference by union officials; costs must be substantially reduced. The Minister of Education gave some striking instances of how industries had been strangled by the high cost of labour and maintained that awards, based as hitherto on the actual cost of living and not on the ability of the industry to pay, were based on altogether wrong principles.

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Relief to Mortgagors and Tenants

The Mortgagors and Tenants Relief Act extended the relief given to mortgagors under the Mortgagors Relief Act, 1931.* It also authorised the Court to grant relief to lessees by way of reduction or remission of rent, the lessor, pending its decision, being prevented from selling the property or exercising the right of re-entry. The relief that the Court can give in respect of mortgages of farming lands was extended to all mortgages. In the case of table mortgages, the Court was empowered to extend the term, and to postpone the date of payment of principal and interest. As originally introduced the Bill enabled the Court in all cases to cancel the mortgagor's liability under his personal covenant, but this power was restricted by an amendment in the Legislative Council to the postponement of the mortgagee's right to sue the mortgagor under the latter's personal covenant, and the Court can impose special conditions on the mortgagor as a condition of postponing the exercise of the mortgagee's rights. Provision was also made for the automatic reference by the Court of all applications for relief to an adjustment commission for investigation unless the parties agree to accept the decision of the Court without such reference.

The significance of this new measure is obvious. The *New Zealand Herald* (Auckland), pointed out on March 4

that once the Legislature placed an interfering hand on private contract it would not be able to stop, but must yield to the pressure ever urging it to go further. The pointed question in the House, whether any power was given to reduce the amount of the principal secured by a mortgage, indicates how further lengths are anticipated. But it may reasonably be asked whether the Government sees the consequences of what it is doing. Does it realise the end of a process which can bring the whole of the securities held by the State Advances Department—involving millions of borrowed capital—under review? Has it considered the effect on real property as

* THE ROUND TABLE, No. 84, September 1931, p. 922.

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security for advances? These are the two questions the legislation prompts, and no satisfactory answer is even hinted by official pronouncements on the subject.

The general trend of the discussion, however, was to the effect that the Bill did not go far enough, and as it was introduced before the National Expenditure Adjustment Bill, which effected a statutory reduction in interest and rents, a great deal of time was spent in advocating such general relief. The reason for the latter measure was that the Government was entering an uncharted sea, and did not—to use the Prime Minister's metaphor—know where the rocks were. An even stronger reason was that the Cabinet was divided on the soundness of the policy of statutory reduction. In his financial statement on April 7 Mr. Downie Stewart had expressed the view that voluntary private adjustments, with the help of the Mortgagors Relief Act, where necessary, would give more equitable results in the great variety of cases than any flat-rate reduction by legislation could do, but he had subordinated his personal view to that of his colleagues, and to what appeared to be the general view.

The objects of the National Expenditure Adjustment Act were five in number :—

- (a) The reduction of salaries, wages, pensions and allowances.
- (b) The reduction of interest, rent and other fixed charges.
- (c) The imposition of a special stamp duty on receipts of income from securities issued by the Government or by local or public authorities.
- (d) The determination of the rates of interest that may be paid on deposits by any savings bank, building society or investment society.
- (e) The determination of the rates of interest at which any bank may accept money on deposit.

The salary "cuts" are to operate as from April 1. There is to be a further cut—this time graduated—in the salaries of the public service, ranging from 5 per cent. to 12½ per cent. The salaries of Ministers of the Crown are reduced by 15 per cent., that of the Speaker of the House of Representatives by 12½ per cent., and those of the

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Speaker of the Legislative Council, the Chairman of Committees of both Houses and ordinary members of Parliament by 10 per cent. Subsidies to local authorities, hospital boards, fire boards and the Rotorua Borough Council are reduced by 10 per cent. Besides, substantial reductions are made in old age pensions, and those of widows, miners, soldiers and their dependants and also in family allowances.

Considerable opposition was shown to the reduction of members' salaries by Labour members, and to the reduction of pensions both by Labour and by several Coalition members. An amendment to defeat the reduction in old age pensions was defeated by 36 to 34 while the cut in soldiers' pensions was retained by 38 to 34.

Part III of the Act makes a compulsory reduction of 20 per cent. in interest on all mortgages (including agreements for sale and purchase of land and company debentures but not mortgages on demand), and in all rents, accruing—in each case—on or after April 1, 1932, and before April 1, 1935. This reduction applies only to contracts in force at the passing of the Act (May 10). Provision is made for the standard by which the reduction is to be arrived at, and both penal and net rates are to be reduced accordingly. The net rate is not to be reduced below $6\frac{1}{2}$ per cent. in the case of mortgages of chattels, nor below 5 per cent. in that of other mortgages. No ground rent will be reduced below 5 per cent. per annum of the unimproved value appearing in the district valuation roll on April 1, 1932. Similar provisions are applied to dividends on the cumulative preference shares of companies. The reduction applies whatever the relative financial positions of mortgagee and mortgagor or landlord and tenant, except that application may be made to any competent Court for relief on any of the following grounds :—

(a) That the rate of interest or of rent under the contract is fair, taking into consideration the nature of the security or the premises. (b) That adequate concessions have already been granted

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to the mortgagor or tenant. (c) That the reduction would be a case of hardship to the person entitled to receive such interest or rent, as the case may be.

As under the Mortgagors and Tenants Relief Act, every application for relief is automatically referred to an adjustment commission unless the parties agree to accept the decision of the Court.

The Act also imposed a stamp duty of 10 per cent. upon debentures (including inscribed stock issued by the Government), empowered the Governor-General by Order in Council to fix the maximum rates of interest payable on deposits at savings banks, building and investment societies, and on deposits held by trading companies. In the case of debentures issued by a local authority the net amount received by way of stamp duty, less 5 per cent. for administrative expenses, is to be paid to the local authority, if it is a rating authority, to be applied in reduction of rates. In his financial statement Mr. Downie Stewart said that in order to place the holders of government bonds, who had to accept a 10 per cent. cut in their interest last year by virtue of taxation, upon the same footing as the private mortgagee, he proposed to supplement the taxation on interest from government bonds by a stamp duty on interest coupons of 10 per cent.

This brings me (he said) to the position of the tax-free debentures. Apparently both the economists and the Royal Commission contemplate that any stamp duty imposed or interest reduction should apply to the tax-free debentures as well as those not tax free. The argument used is that this stamp duty is a special revenue duty framed for an emergency and not forming part of the ordinary system of income tax. This view is held not only by the Royal Commission and the economists, but it appears to be considered justifiable by some of the stock exchanges and other organisations dealing in investments. I am unable to acquiesce in this view and it must therefore be understood that, while the recommendation is submitted to the House by the Government on the advice and acquiescence of the authorities I have quoted, it does not express my own personal view.

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The plain man considers that this device is merely a quibble to tax government bonds that were declared tax free, and a repudiation of a solemn contract entered into with investors. In the Legislative Council Sir Francis Bell, who unsuccessfully introduced a motion to delete the preamble to Part III, said that the action of the Government was without precedent in the Parliamentary history of England and New Zealand, and that it creates a precedent which would be used the moment the Labour party got into power. Well might the Prime Minister say that the Government was embarking on a voyage in an uncharted sea, and did not know where the rocks were.

The reason why this legislation has been generally accepted was well put by the *Otago Daily Times* of Dunedin :—

Under the stress of circumstances (said the *Daily Times* on May 11) proposals have been adopted which are destructive of principles that have generally been regarded in British communities as unsailable. Securities of all kinds have been statutorily reduced in value. The old notion of the sanctity of a contract has been temporarily abolished. How long it may take to revive it must be doubtful. The mortgage system in New Zealand has received a blow from which it may never recover. The legislation to which all this is attributable was framed with the object of securing that invested capital might be subject to losses commensurate with those inflicted on public servants, in whose salaries fresh cuts are being made as part of the programme of economy that has been forced on the Government. And, because it has been generally recognised that the sacrifices that are necessary in order that the Dominion may fight its way back into financial health must be distributed as equitably as possible, there has been a wide measure of acceptance of, and acquiescence in, the legislation requiring a reduction of interest rates and rentals.

Unemployment

The Unemployment Amendment Act effected the following changes. It imposed an emergency unemployed charge of 1s. in the £ (in lieu of 3d.), which is estimated to bring

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in between £3,000,000 and £3,500,000. This is in addition to the general levy of £1 a year, estimated to produce just over £400,000. The tax is now extended to include women with individual incomes below £250 a year from sources other than salaries or wages, though they receive an exemption of £20 on such income. The State pound for pound subsidy has been cancelled, and the Unemployment Board has taken over the responsibility of the Hospital Board for the relief of distress arising out of unemployment in the case of people who are able and willing to work. The change-over is being gradually accomplished, though not without friction. The Board has power to utilise its funds for the purchase of food, clothing or other necessities, and, if necessary, for the payment of rent for the benefit of unemployed and relief workers or their families or dependents.

Power is given the Minister of Employment to make agreements with owners or occupiers of land for occupation or cultivation by unemployed workers and their families, and for the erection of suitable dwellings. The object is to give these people an opportunity of becoming owners of small areas in developed districts already provided with roads and other facilities. Each holding will be equipped with a cottage of the public works type. Wherever possible the holding will be part of an existing farm, and the farmer will be asked to co-operate in the provision of seeds and stock and the loan of implements. The areas will range from five to ten acres, and it will be possible for the holder of the section ultimately to lease or purchase a small farm including his original holding, for it is proposed to take options over the adjacent land. In the meantime the holder will have a chance of providing his family with some food. It is also proposed to select holdings of two acres or more, so located as to permit the holder to obtain work on surrounding farms. Authority is given under the scheme to spend up to £500,000.

On June 15 Mr. Coates, the Minister for Employment,

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said that the small-farm plan was being taken up with enthusiasm, and that 1,000 practical farmers were giving their help and advice gratis. Some 300 sections had already been approved and cottages were being erected; from 300 to 400 offers of further sections were under consideration. The development of milking on the share system promises to become an important feature of the scheme, but whether the benefit conferred will justify the heavy expenditure seems doubtful.

In announcing the new proposals on March 23, Mr. Coates said that the number of registered unemployed on October 6, 1931, was 51,408, but at the date of his speech the number had remained fairly constant at about 45,000 for several weeks. (The number registered on June 6 was 53,479 but there are no fewer than 66,400 odd receiving relief in various forms from the Unemployment Fund, the difference being accounted for by the fact that a registered man who receives relief employment of a more or less continuous character is removed from the register.) The total number of men in subsidised employment on farms was 17,000. About 1,000 single men had been moved from congested city areas into camps for highway construction, but the system would be further extended, and the purpose not confined to road work. They had also begun to establish camps for married men to enable them to undertake more useful tasks than was possible in the cities.* Gold prospecting and land drainage and improvement were absorbing a large number, and land settlement was also being carried on or contemplated by private individuals.

At a later date Mr. Coates announced a further scheme for assisting building and repairing operations, which the Unemployment Board would subsidise to the extent of one third of the wages paid, provided that the amount does not exceed 22s. 6d. a week. There are said to be between

* The number of married men in the cities had only fallen from 11,500 in October to 11,200 in March.

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5,000 and 6,000 building tradesmen in the ranks of the unemployed. On April 22 Mr. Coates announced a change in the relief scheme to operate from May 1, the stand-down week for relief workers being abolished and a new scale of payments adopted. The revenue of the Unemployment Fund was estimated at £3,600,000 while the total relief pay on scheme 5 alone at the rates announced must exceed £3,000,000. The change-over of the burden of relief from the Hospital Boards to the Unemployment Board was to take place in about a fortnight.

As a protest against the new scheme the Leader of the Opposition moved the adjournment of the House in order to provide an opportunity for discussing the new rates of relief pay, which were said to have made the position of the unemployed worse than before. Labour members contended that the new scheme had increased discontent and unrest among relief workers; that the Government was pursuing a wage reduction policy; that while about 167,000 women paid the unemployment tax, no provision was made for them, and that the payments made should be at least equal to the sustenance rates laid down by the original Act.

The general position with regard to unemployment is causing everyone concern. Before the increased taxation referred to above was imposed, the expenditure under the Act from the Unemployment Fund was at the rate of approximately £50,000 per week or just over £2,500,000 a year. The increased taxation now imposed will make available an amount estimated at from £3½ to £4 million. The expenditure from the Unemployment Fund has, however, been growing rapidly and the new taxation will evidently be insufficient to provide relief for all unemployed on the scale which is being adopted. If the number of registered unemployed increases, as seems likely, and relief is to be provided for the country districts as well as the cities, it will probably take from £4½ to £5 million to meet the cost, and further taxation seems inevitable. Indeed

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rumours are now current of a special session for the purpose. The Consolidated Fund revenue for 1930-31 was just over £23 million. The figures for 1931-32 have not yet been published but they will be much lower, and for the current year it is not anticipated that the Consolidated revenue will greatly exceed £20 million. Serious minded people are asking themselves whether New Zealand can afford to spend a sum approximately equal to 25 per cent. of the Consolidated Fund revenue on unemployment relief.

II. THE REACTION

WHILE the Government has been doing its best to carry out its policy of avoiding a "dole" and giving work to the unemployed and sustenance to those unable to work, the Labour party, both in and out of Parliament, have been relentlessly violent in their opposition, though their criticism has been destructive rather than constructive. From their point of view the Government's policy is calculated to diminish the purchasing power of the people, to divert an increasing number of workers from regular industry into what they call "the slave camps" of the Government at a starvation wage. The Government, they say indeed, intends "to turn New Zealand into a slave camp, with the mass of the useful population intimidated into cringing servitude by the lash of hunger and the fear of unemployment." Although women have to pay the unemployment tax, they are excluded from all unemployment schemes. Nor has the Government any plan for giving training or employment to unemployed boys between 15 and 20, whose number is estimated at 20,000, and to whose plight the Auckland Committee of Church leaders called attention on June 4. Higher graduated taxation and the utilisation of our internal credits, or a policy of inflation would appear to be the measures upon which the Labour party, if in office, would rely to solve the unemployment problem.

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They warned the Government that its policy was breeding a revolutionary party. Last Easter at Westport, Mr. H. E. Holland, their leader, stated that if the Arbitration Bill were passed and the recommendations of the National Economy Committee adopted, the "most dangerous hour in the history of New Zealand would have struck," and "all the conditions making for industrial upheavals and insurrectionary developments would have been created." Speeches by other Labour spokesmen followed similar lines. A speaker in the Legislative Council feared that some of these gloomy anticipations were largely responsible for the unrest that followed.

During the last two months we have had unrest, disorder and riot. Dissatisfaction with the conditions of the employment of relief workers and the nature of the relief granted have led to strikes of unemployed and, at the time of writing, a strike of coal miners on the west coast of the South Island is in progress. At Dunedin, at the beginning of April, because rations in kind were given instead of orders, there were disturbances in the course of which an attempt was made to overturn the Mayoress's car and to drag her out of it. Windows were broken and there were clashes with the police.

On April 12 Mr. Holland warned the House that what had happened at Dunedin was a faint rumbling compared to what was likely to happen throughout the Dominion. His prediction proved correct. On April 13 in Auckland a meeting of post and telegraph employees, who have been co-operating with the Labour party in its protest against "cuts," attracted a large number of unemployed and they were addressed through a megaphone. A small body of mounted police, behaving with great restraint and courage, attempted to clear a passage, but were so roughly handled that twelve had to be taken to hospital, at least three of them seriously injured, and some 150 casualties were treated by the St. John's Ambulance Association. While the police were busy with the crowd at the Town Hall, the hooligan

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element ran amuck, smashed window after window in Queen Street, and looted liquor, jewellery and clothing, but no food. That the attack was premeditated was shown by the number of battens torn from fences and the heaps of stones. Special constables were enrolled, and naval units sent by the *Philomel* to assist the police. The following night, despite all precautions, another, though a less serious, disturbance took place in the Karangahape Road, spasmodic attacks being made upon windows, but the police, the specials in their steel helmets, and the blue-jackets kept the crowd on the move until it dispersed.

Preparation was also promptly made in Wellington to cope with anticipated trouble. A large body of special constables was enrolled, public meetings were prohibited and a Public Safety Conservation Act on the lines of the Imperial Emergency Powers Act of 1920 was passed into law. This Act authorises the Governor-General, under certain conditions, to declare a state of emergency either throughout New Zealand or in any specified area by proclamation, and to make regulations necessary for the public safety. Mr. Holland and Mr. McCombs, a Labour colleague, expressed their regret at the lawlessness and their sympathy with the injured, but according to Mr. Holland the trouble was "the inevitable result of the Government's policy," and Mr. McCombs considered "the lawlessness entirely due to the maladministration."

Christchurch was the next city to suffer. The staff of the Tramway Board went on strike on May 3-4. About 6 a.m. as the first tram for Sumner was coming out of the sheds some 300 men armed with iron bars and stones attacked it, but they were promptly routed by the police. A stick of gelignite was found on the tram line. A football team had to abandon a match in Black Maria to escape the mob and there were subsequent small isolated instances of picketing and window smashing.

On May 10 Wellington's turn came. There had been meetings of strikers to protest against the new relief scale,

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and a procession some 4,000 strong marched to Parliament Buildings. For two hours the crowd waited patiently while deputations interviewed Mr. Coates. Not appreciating what was going on inside, the crowd grew restless. At last, just at dusk, when a promise was made that Mr. Coates would announce amendments in the morning, there was a cry of "Up the town!" and some 30 or 40 young irresponsibles rushed along Lambton Quay, Willis and Manners Streets, upsetting fruit stalls and motor cars and breaking some 174 windows—quite indiscriminately. There was little looting but in most cases the damage was done out of pure wantonness. There was indeed not much time to pillage as the police were hot-foot in pursuit.

Eventually the rioters were intercepted and some arrests made. A meeting next day on a vacant section in Cuba Street looked as if it might develop into a further outbreak but on the first volley of stones the small body of police, foot and mounted, charged with their batons and dispersed the crowd.

To so small and law-abiding a population as that of New Zealand these disturbances were naturally of considerable concern, but the cabled reports to other countries gave an exaggerated idea of their extent and importance. The pronouncement of the Wellington stipendiary magistrate in sentencing the convicted rioters of that city is applicable to all the disturbances both in Wellington and the other centres.

My opinion (he said) is that this orgy of window-smashing and looting was not the work of the genuine unemployed. It was, I think, the work of a small band instigated and led by members of an organisation operating in our midst—the Communists—whose doctrine appears to be the fostering of mob violence and revolutionary disorder.

Some of the associations of members of the public service, however, mainly employees in the general division, corresponding to members of trade unions in private employment, not content with a petition to Parliament protesting

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against further cuts and suggesting a system of inflation, actively joined the Labour party in demonstrations against the Government. Notable among them was the Post and Telegraph Employees Association—not to be confused with the Post and Telegraph Officers Guild—the Amalgamated Society of Railway Servants, the Railway Tradesmen's Association and the Engine-Drivers' and Firemen's Association. The attention of the Prime Minister was called to a letter dated March 24 issued by the Thames Section of the Post and Telegraph Employees Association to the following effect :—

Petition to Parliament against further reductions in salaries and wages. For the information of the members of your Association I have to inform you that the following business men could not see their way clear to sign the petition which I circulated in Thames protesting against further salary and wage reductions—an admission that they were in favour of the cuts. It is the intention of the members of my organisation to place a boycott against all the under-mentioned firms. A list of the names of eleven firms was attached.

Proof was given too that the threat was being put into effect. Further the *Katipo* (the Maori name of a venomous spider), a small journal that has the backing of the Association, has been abusing the Government. The Prime Minister thereupon declared that it was time that the public servants of New Zealand realised that they were public servants and ceased trying to pose as the "bosses" of the public, but he unfortunately failed at the same time to make clear to the public the absolute loyalty of the administrative branch of the service and its abstention from politics. In the last Bill of the session, the Finance Bill, a clause has been inserted giving the appointing authority, with the concurrence of the Governor-General in Council, power to terminate without notice the employment of public servants, who have hitherto been deemed to be on three monthly terms, if adjudged guilty of conduct calculated to incite, procure or encourage grave acts of violence, lawlessness or disorder or if by

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public statements intended for publication they have sought to bring the Government of New Zealand into disrepute, or in any other manner have shown conduct gravely inimical to the order or good government of New Zealand.

The clause was passed, although other people besides the protesting Labour members considered that it was too vague, and that it placed too dictatorial a power in the hands of the appointing authority.

Another clause in the same Bill, extended the life of the present Parliament for a year on the ground that the Government plan for the adjustment of the Dominion's finances required four years. The extension was strongly opposed as unconstitutional, even by some of those who believe that our present three year term is too short. It, however, also became law.

III. IMPERIAL MATTERS

The Treaty With Canada

THE treaty between Canada and New Zealand ratifying the trade agreement recently arrived at by Mr. Downie Stewart and Mr. Stevens at Honolulu and signed on April 23, came into force on May 24. Mr. Stewart informed the House that it would not, he considered, have been a good augury for the success of the Imperial Economic Conference if two of the self-governing Dominions who were to take part in it had been unable to come to a friendly agreement with regard to their own trading conditions. In view of that Conference, the agreement is to remain in force for only one year, and the whole subject will be reconsidered in the light of the decisions reached at Ottawa. There is a long list of affected articles, but those of chief interest are New Zealand butter and Canadian motor vehicles. As regards the former, the same rate has been fixed as for Australian butter, i.e. 5 cents a lb. in lieu of the present British preferential tariff rate of 8 cents.

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There is still the possibility (said Mr. Stewart) that during the winter months, Canada might in future years, even under the conditions now prevailing, require a certain amount of imported butter, and if the rate of 5 cents per lb. is made permanent, New Zealand should be able again to supply the market.

One valuable concession to New Zealand (and apparently also to other parts of the Empire) is that wool, hides, skins and pelts will continue to be free of duty, and the Canadian Government has decided to impose a general and an intermediate tariff on those goods when they come from outside countries.

Briefly, New Zealand has secured the same rates as Australia; indeed on a substantial number of items of special interest to her she has secured lower rates than Australia.

Among other things, Canada is now to receive a preference of 2s. per 100 super feet on her rough sawn and dressed timber.

The dual purpose of encouraging certain New Zealand industries and of assisting trade with the United Kingdom is (said Mr. Stewart) achieved by imposing on certain Canadian products higher duties than on the competing goods from the United Kingdom, and in the case of motor vehicles by insisting that before they can obtain the benefits of the British preferential tariff they must contain 75 per cent. of Canadian material and/or labour, and in other respects comply with the regulations in force for the application of the British preferential tariff. When motor vehicles do not comply with these conditions, but contain over 50 per cent. and less than 75 per cent. of Canadian material and/or labour, the duty is increased by 10 per cent.

The requirement of a 75 per cent. Canadian content for motor vehicles gives effect to the wishes of the motor-car manufacturers in the United Kingdom, and the extra duty of 10 per cent. on the vehicles having a lower Canadian content than 75 per cent. will assist the United Kingdom manufacturers in maintaining their trade with this country.

Mr. Stewart went on to explain that the reason why Canadian goods had not been wholly replaced under the British preferential tariff—New Zealand goods had always been entitled to the British preference in Canada—was, that

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before such a policy was adopted, it was considered that the whole position should be discussed at Ottawa with the representatives of the United Kingdom and Canada, and, if necessary, also with other parts of the Empire.

The press seems to consider that New Zealand has obtained as much as could be expected under the circumstances.

The Ottawa Conference

For the last three months keen interest has been taken in the question of who is to represent New Zealand at the Conference and the policy that is to be put forward. A special committee of the Cabinet consisting of the Prime Minister, Mr. Stewart and Mr. Masters has been obtaining information from the various departments and preparing a policy, but the country has not yet been told what that policy is to be, although the Government is known to have been in close touch with the British Government. There was a good deal of intrigue in connection with the appointment of parliamentary representatives. It was only announced on May 27 that Mr. Forbes, Mr. Coates and Mr. Downie Stewart were to go, accompanied by the heads of the Customs and Treasury departments, and five advisers representing the Meat Producers Board, the Dairy Produce Board, the Fruit Export Control Board, the Fruit Growers Federation, the Farmers Union and the Manufacturers Association. The expenses of these advisers will not be paid by the Government.

In normal times such a delegation would have met with general approval, but in view of its present serious condition the metropolitan newspapers were practically unanimous in condemning the decision of the Prime Minister and the Minister of Employment to leave New Zealand. Many people believed that Mr. Downie Stewart, with the necessary official assistance, could himself represent the Dominion single-handed, as he did in the negotiations with Canada, and that he is quite capable of dealing with the problems of currency, price level and banking that are to be

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discussed. The Prime Minister had warned our people against "undue expectations." "The return that New Zealand could make to Britain for the preference already given was," he said, "limited by the fact that already very extensive concessions and preference had been granted to Great Britain, a fact," he added, "fully recognised there." But in spite of this warning, there are lively hopes, especially among the primary producers, that New Zealand will derive great benefit, and the primary producer group urged that she should, in any case, send a strong delegation, representative of all interests, as the work would be beyond the capacity of any one man. The various interests here, moreover, sheep farmers, dairy farmers, manufacturers, fruit growers, tobacco growers, are all reminding the Prime Minister of the privileges he might ask for them, and of the protection that should be assured to them when Great Britain's claims come up for consideration. None of them, however, suggests what really substantial measure of reciprocity we ourselves can offer. The slogan of New Zealand for the Conference might be said to be, "It is more blessed to receive than to give." The Sheep Owners Federation want tariff preference for their mutton and lamb; the Dairy Board wants the quota system plus a tariff, and by the quota system they mean that all New Zealand dairy produce should enter Great Britain free, and that the quantity from foreign countries should be controlled. For the purpose of the quota they would take the 1930 figures as the basis.

There had for some time past been considerable doubt as to whether or not Mr. Coates would go to the Conference, and on June 21 the 400 delegates at the Annual National Dairy Conference at Palmerston North urged the Government to let him represent the primary producers. The Prime Minister at once replied that it was the unanimous wish of the Cabinet, which was in complete agreement upon the representations to be made on its behalf, that Mr. Coates should head the delegation.

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The Irish Crisis

On March 24 the New Zealand Government sent a cablegram to the British Government and another on April 4 to Mr. de Valera. The purport of these cablegrams was that it had always looked upon the Irish Treaty "not only as an agreed solution of differences hitherto existing, but as affording a basis satisfactory in all essentials for the free association of the Irish Free State as an equal partner in the British Commonwealth," and that "the principles embodied in the Statute of Westminster (which New Zealand accepted, despite the strongest objection, solely to meet the views of other Dominions differently situated) offer in all essentials a complete guarantee for the future of the autonomy and equality of all the Governments of the British Commonwealth." The Government hoped that the Irish Free State Government would not feel obliged to take any step that might prejudice the continued association of that State as an equal partner in the Commonwealth.

The Governor-General's Gift

No chronicle of the quarter under review would be complete which failed to record the generosity of the Governor-General. Lord Bledisloe has already made gifts to encourage art, culture and agriculture, and on April 15 he proposed to forgo 45 per cent. of his salary of £7,500, already voluntarily reduced by him by £1,062 in consequence of the state of our finances. He and Lady Bledisloe have now purchased and given to the nation the former residence of Mr. James Busby, the first British Resident at Waitangi, in the Bay of Islands, the scene of the signing of the treaty of Waitangi, the Magna Charta of the Maori, together with 1,000 acres to be held under a trust which will provide for the preservation of this historic building in a national park.

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June 25, 1932.

EAST INDIA (CONSTITUTIONAL REFORMS) COMMUNAL DECISION

1. The Prime Minister's promise on December 1 last to decide upon a provisional solution if the communities failed to agree is recalled.

2. On March 19 H.M. Government were informed that the failure of the communities to agree was blocking the reforms. They were satisfied that it was essential for progress that at least some of the aspects of the communal problem should be decided.

3. Their scheme is confined to representation in the provincial legislatures. Their proposals, moreover, only deal with certain aspects of the communal question. It is hoped that, once the method and proportions of representation are settled, the communities themselves will arrive at a *modus vivendi* on other communal questions.

4. The door is not closed on an agreed settlement, but the Government will not take part in any negotiations with a view to revision, or receive any representations, unless supported by all the parties affected. If, however, a practicable alternative scheme, either in respect of one or more Governor's provinces, or in respect of the whole of British India, is agreed upon by all the communities concerned before the proposed new constitution has become law, they will recommend its adoption by Parliament.

5. Seats in the legislative councils in Governor's provinces, or in the Lower House where there is an upper chamber, will be allocated as in the annexed table.

6. Election to seats allotted to Moslem, European and Sikh constituencies will be by voters voting in separate communal electorates, covering between them the whole area of the province (except backward areas). This electoral arrangement (and other similar arrangements specified below) may be revised after ten years with the consent of the communities affected.

7. All qualified electors, who are not voters in a Moslem, Sikh, Indian Christian, Anglo-Indian, or European constituency, may vote in a general constituency.

8. Seven seats will be reserved for Mahrattas in certain selected plural member general constituencies in Bombay.

9. Qualified members of the depressed classes will vote in a general constituency, but a number of seats will be assigned to them (see the table). In some cases, seats will be assigned to them in special constituencies in which only qualified members of the depressed classes will vote. These constituencies are to be formed where these classes are most numerous, but, except in Madras, should not cover the whole province. No number has been fixed, pending further investigation, for Bengal, as it seems possible that, in some general constituencies there, a majority of the voters will belong to the depressed classes, but the latter are intended to obtain not less than ten seats. No precise definition of depressed class voters in such constituencies has yet been made; but it will be based on the general principles advocated in the Franchise Committee's Report. The definition may have to be modified in some provinces in northern India. These special depressed class constituencies are to come to an end after twenty years, unless previously abolished with the consent of the depressed classes.

10. Election to seats allotted to Indian Christians will be by voters voting in separate communal electorates, but practical difficulties are likely to prevent the formation of Indian Christian constituencies, covering the whole

East India (Constitutional Reforms)

area of the province, except possibly in Madras, and Indian Christian constituencies will almost certainly have to be formed only in one or two select areas in the province. Indian Christian voters in these areas will not vote in a general constituency. Those outside will do so. There may have to be special arrangements in Bihar and Orissa, where a great many of the Indian Christians are aborigines.

11. Election to seats allotted to Anglo-Indians will be by voters vote in separate communal electorates. Anglo-Indian constituencies are intended to cover the whole area of each province, and to use a postal ballot, but decision has yet been reached.

12. As regards the backward areas, the number of seats assigned is provisional, pending further investigation.

13. A certain number of seats are to be specially allotted to women. The electorate for each seat is to be limited to voters from one commune (except at Shillong), and the special women's seats have been specifically divided between the various provinces. The necessary special electoral machinery has still to be framed.

14. The seats allotted to Labour will be filled from non-communal constituencies. The electoral arrangements have still to be determined but in most provinces Labour constituencies will be partly trade union partly special constituencies as recommended by the Franchise Committee.

15. The special seats allotted to commerce, industry, mining and planning, will be filled by election through chambers of commerce and various associations. The electoral machinery has still to be framed.

16. The special seats allotted to special landholders' constituencies.

17. The method of election to university seats is still under consideration.

18. The determination of the constituencies is to be undertaken in India as early as possible. This may involve some slight variation from the number of seats now given, but the essential balance between communal will not be affected. No variation will be made in Bengal and the Punjab.

19. The questions of the composition of second chambers, and of what provinces shall have a second chamber have not yet been decided; H.M. Government consider that the composition of the Upper House of each province should be such as not to disturb the balance between the communities resulting from the composition of the Lower House.

20. The question of the size and composition of the central legislature is deferred until the question of the representation of the Indian States has been further discussed. Full regard will be given to the claims of communities to adequate representation.

21. As already decided, Sind is to be a separate province, if it can be satisfactorily financed. The financial problems involved have, however, still to be reviewed in connection with other problems of federal finance. In the meantime figures for the existing members of Bombay are given below.

22. The British Government have not yet decided whether Orissa is to be a separate province.

23. Figures are given for the Central Provinces and Berar, but the figures for the other provinces are not yet available. The figures are given in London.

August 4, 1932.

East India (Constitutional Reforms)

ALLOCATION OF SEATS IN PROVINCIAL LEGISLATURES (LOWER HOUSE ONLY).

Province.	General.	De-pressed Classes.	Representatives from Backward Areas.	Sikh.	Muhamma- dan.	Indian Christian.	Anglo- Indian.	Euro- pean.	Commerce and Indus- try, Plan- tation, &c. (a).	Land- holders, Special.	Univer- sity, Special.	Labour, Special.	Total
Madras	18 (10 ling 8 non-ling)	1	0	0	1 (1 ling 1 woman)	9 (inc. 2 woman)	2	3	6	6	1	6	315
Bombay (including Sind) ..	10 (5 ling 5 non-ling)	1	0	0	1 (1 ling 1 woman)	3	2	4	8	3	1	8	200
Bengal	(r) (1 ling 1 non-ling)	0	0	0	1 (1 ling 1 woman)	2	4 (including 1 woman)	11	19	5	2	8	450
United Provinces	12 (1 ling 1 non-ling)	0	0	0	1 (1 ling 1 woman)	2	1	2	3	6	1	3	228
Punjab	0 (1 ling 1 non-ling)	0	0	32 (including 1 woman)	1 (1 ling 1 woman)	2	1	1	1	5 (d)	1	3	175
Bihar and Orissa	7 (1 ling 1 non-ling)	8	0	0	1 (1 ling 1 woman)	2	1	2	4	5	1	4	175
Central Provinces (including Berar) ..	10 (1 ling 1 non-ling)	1	0	0	1 (1 ling 1 woman)	0	1	1	2	5	1	2	112
Assam	4 (1 ling 1 non-ling)	9	0	0	34 (1 ling 1 woman)	1	0	1	11	0	0	4	108
North-West Frontier Province ..	0 (1 ling 1 non-ling)	0	0	3	30 (1 ling 1 woman)	0	0	0	0	2	0	0	50
Bombay (without Sind)	10 (1 ling 1 non-ling)	1	0	0	30 (including 1 woman)	3	2	3	7	2	1	7	175
Sind	0 (1 ling 1 non-ling)	0	0	0	1 (including 1 woman)	0	0	2	2	2	0	1	60

(a) The composition of the bodies through which election to these seats will be conducted, though in most cases either predominantly European or predominantly Indian, will not be statutorily fixed. It is, accordingly, not possible in each province to state with certainty how many European and Indians respectively will be returned. It is, however, expected that, in nearly all the provinces, the numbers will be approximately as follows:—Madras, 4 Europeans, 4 Indians; Bombay, 5 Europeans, 3 Indians; Bengal, 14 Europeans, 1 Indian; United Provinces, 3 Europeans, 1 Indian; Bihar and Orissa, 2 Europeans, 2 Indians; Central Provinces (including Berar), 1 European, 1 Indian; Assam, 8 Europeans, 1 Indian; Punjab, 1 European, 1 Indian; North-West Frontier Province, 1 European, 1 Indian; Sind, 1 European, 1 Indian. (b) Seven of these seats will be reserved for Mahatras. (c) As explained in paragraph 9 of the statement, the number of special Depressed Class seats. General seats will be 80, less the number of special Depressed Class seats. (d) One of these seats is a Tumandar's seat. The four Landholders' seats will be filled from special constituencies with joint electorates. It is probable, from the distribution of the electorate, that the members returned will be one Hindu, one Sikh, and two Muhammadans. (e) This woman's seat will be filled from a non-constituent constituency at Salbong.

THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICAL AND ECONOMIC
THE BRITISH COMMONWEALTH



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NOTE

THE ROUND TABLE is a co-operative enterprise conducted by people who dwell in all parts of the British Commonwealth, and whose aim is to publish once a quarter a comprehensive review of Imperial politics, free from the bias of local party issues. The affairs of **THE ROUND TABLE** in each portion of the Commonwealth are in the hands of local residents who are responsible for all articles on the politics of their own country. It is hoped that in this way **THE ROUND TABLE** will reflect the current opinions of all parts about Imperial problems, and at the same time present a survey of them as a whole. While no article will be published in the interest of any political party, articles may from time to time be published explaining the standpoint of particular parties or sections of opinion. In such cases, however, the character of the article will be made clear by an introductory note.

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THE FOUNDATION FOR DISARMAMENT

THERE is general recognition that we have reached a crisis in international affairs. Newspapers and politicians alike assert that on the issue of the Disarmament Conference and the Manchurian deadlock will depend the question whether there is to be a strengthening of the system of international relations represented by the League of Nations and the Kellogg Pact, or a new race of competitive armaments which is bound to end in another and more destructive world war. It is true that we are confronted by a peculiarly complex set of problems at the moment, and that the difficulty of solving them is aggravated by the economic depression in which the world is sunk. But we are not inclined to take a tragic view. What is certain is that the European system represented by the Treaty of Versailles and the French military predominance in Europe is coming to an end. But we are not sure that something more durable and stable will not come into being, amid alarums and excursions, in its place. It is not the purpose of this article to discuss the technical problems before the Disarmament Conference, which are changing every hour as one plan after another is put forward by the Powers. It is rather, in continuation of an earlier article,* to try to set forth in a perspective which goes back to 1913 the political realities which are the foundations upon which alone a solution of the disarmament problem can be based and a permanent system of international peace reared.

I. THE PRE-WAR SYSTEM AND THE PARIS SETTLEMENT

THE essence of the pre-war international situation was anarchy—caused by the claim of all nations to exercise a lawless sovereignty. The world was divided into a number

* See *THE ROUND TABLE*, No. 79, June 1930, p. 451.

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of sovereign States, some of them liberal and democratic, like France and the United States, some of them dynastic and autocratic, like Germany and Russia, others mediæval and little affected by modern civilisation, like China or Persia. There were also the colonies and dependencies, mostly in the East or in Africa, which sovereign States had acquired. There was no system of international conference, no concert of Europe or of the world. International law, so called, recognised war as the inevitable method of settling disputes when diplomacy failed. In the West rapid industrialisation on the basis of private enterprise was in progress. Great Britain still clung to free trade, because, as the first of the great industrial Powers, she exchanged her manufactured products with the whole world in return for raw materials and foodstuffs, developed largely by her own surplus capital. Most of the other Western nations were moderately protectionist, in order to secure their own domestic markets for their own nascent industrialism and, with the exception of Germany, they hardly thought of competing for world trade. In this international anarchy every State inevitably relied upon its own armaments, and on alliances with its neighbours, as the means of self-defence or of promoting its own ends. Yet as political and economic adjustments became more and more necessary in a rapidly changing world, it became ever more difficult to bring them about by diplomacy. As democracy threatened the old autocracies, as minor nationalities clamoured for the right of self-government and self-expression, as national rivalries intensified the competition for colonies and markets, for power and prestige, one nation after another increased its armaments either for the sake of security or to give force to its demands. The great commercial and financial corporations were usually more internationally minded than the governments and their general staffs, and on the whole they strove to prevent war, which, they saw, could only bring ruin in its train. But this competitive and lawless anarchy gradually produced such

Pre-War System and the Paris Settlement

a state of diplomatic and military tension, that an accident, a mistake, or a minor provocation was enough to create a crisis that statesmen and diplomats were powerless to control. So did the assassination of the Archduke Franz Ferdinand plunge first Europe, then Asia and Africa, and then most of America into the greatest war of all time in 1914.

Two leading ideas, coming mainly from the United States and the British Commonwealth, emerged during the agony of the conflict. The first was that any settlement, to be durable, must recognise the idea of self-determination—that all civilised peoples who wished to do so ought to be free to govern themselves, preferably as democracies. The second was that, unless world war was to recur constantly, international anarchy must be ended by the creation of a permanent league of all nations, pledged to regular conference, to the solution of international problems and disputes by resort to a pacific machinery of settlement, instead of by resort to war, and to collective action against any nation which went to war in defiance of those obligations. These ideas bore fruit in Paris, the first in the creation of a number of new States, the second in the Covenant of the League of Nations—the beginnings of the world constitution which is destined ultimately to come into being.

Unfortunately, though almost inevitably, the effective operation of these ideas was defeated by the passions aroused by the war itself. In the first place, the Treaty settlement was imposed by force and without any real consent, and it contained temporary provisions keeping it in force for the unduly long period of fifteen years. In the second place, though the new frontiers were immeasurably better than the old and gave freedom to every nationality, the new alignments were to some extent unwise and biased, and all Germany's overseas possessions were taken away. In the third place, the settlement paid no adequate attention to economic realities, partly because it created claims for payments, both national and international, in respect of

The Foundation for Disarmament

reparations and war debts, which were impossibly large, and partly because it made no provision whatever for a limitation in the barriers to international trade which were the inevitable result of higher tariffs and the creation of new and highly protectionist States.

It seems to have been expected that the stability of the new order would be assured partly by its inherent merits, and partly by the Covenant of the League of Nations, which, while making general provision, in Article 19, for the revision, through the Assembly, of treaties which were unjust or out of date, forbade any attempt to settle disputes by war, except after recourse to the machinery of the League, and provided, in Article 16, for an economic boycott by all members of the League of any State which went to war in defiance of the Covenant. In order, however, to remove the anxiety of France and to give yet more stability to the peace settlement, the Anglo-American treaty of guarantee to France was drawn up, whereby Great Britain (not the Dominions) and the United States undertook "to come immediately to her assistance in the event of any unprovoked movement of aggression being made against her by Germany." This guarantee was to continue until the Council of the League "agrees that the League itself affords sufficient protection."

II.—THE LAST TWELVE YEARS

THE Paris settlement, therefore, was a consistent whole which aimed at bringing into being a new world order, whereby, after a period of stability, defects in the Peace Treaties and new anomalies arising from the unceasing activities of mankind, could be remedied, not as in the past by war, but by rational processes based on justice, under the guarantee and supervision of a body representing the whole of mankind. Whether the system conceived at Paris could ever have been made to work is

The Last Twelve Years

a matter of opinion, but in practice it was never brought into being. The history of the last thirteen years and the fundamental problems that confront us to-day are the consequence of its breakdown, and they centre around the efforts which have been made to find a new and more practical basis for international relations. It broke down, in the first place, because the largest and most powerful State in the world, the United States, reverting to the fundamental tradition which had governed her foreign policy ever since 1787, rejected not only the League and the treaty of guarantee to France, but all co-operation with Europe under the Treaty of Versailles, and in a lesser degree because Russia had arrayed herself against Western civilisation, including the League of Nations. And it broke down, secondly, because of the inexorable operation of economic laws which have been disregarded from 1919 onwards. If we are to understand the fundamental problems that confront us to-day, we must trace the consequences of these facts and of the failure of the Peace Conference to grapple with economic realities. Let us then trace the history of these years under four heads: (a) the search for stability and security in Europe; (b) Anglo-American relations and the freedom of the seas; (c) the Far East, and (d) the economic impasse.

III. THE SEARCH FOR STABILITY AND SECURITY IN EUROPE

IT was inevitable that France, which had been successfully invaded twice in fifty years, and had on the second occasion ejected the invaders only with the assistance of the British Commonwealth and the United States, and also such new nations as Poland and Czecho-Slovakia and Jugoslavia, which had been carved out of the old German, Austro-Hungarian or Russian Empires, should feel profound dismay at the complete withdrawal of the United States both from Europe and the League, and at the lapse of the

The Foundation for Disarmament

Anglo-American treaty of guarantee as a result of its rejection by the Senate. Not only did this action enormously weaken the direct guarantee behind the Treaties, and correspondingly hearten Germany and her associates, but it limited seriously the possibilities of the League, partly by depriving it of its most important single member, partly by throwing doubt upon the readiness and the power of Great Britain to act under Article 16 owing to uncertainty whether the United States would not regard such action as a violation of her own doctrine of the freedom of the seas. The policy of France, therefore, was from that time onward almost wholly preoccupied with the endeavour to construct an alternative system for the purpose of guaranteeing the stability of the Versailles Settlement and her own security. The inviolability of every article of the Treaties became the first article of her policy, and instead of the relatively flexible system of the Covenant and the Anglo-American treaty, she relied on the armaments of Belgium, Czechoslovakia, Poland and Rumania. A series of treaties between herself and these four countries were signed in 1920, 1924, 1921, and 1927 respectively. They amounted to military alliances, whereby disarmed Germany, Austria, Hungary and Bulgaria were encircled by a military combination of irresistible strength, capable at any time of enforcing compliance with the Treaties of Peace. This military machinery for the enforcement of the Versailles system she brought into operation in 1923, despite the protests of Great Britain, when the French armies marched into the Ruhr to prove to Germany that she could not hope to nullify the Treaty settlement, and to make her comply with her reparation obligations.

But while the Ruhr expedition succeeded in a military sense, its failure from an economic standpoint, the pressure of world opinion, and a dawning recognition that a great Power like Germany could not be kept in permanent subordination, and that the emergence of Russia, or the opposition of a revitalised Italy would inevitably eventually

Search for Stability and Security in Europe

create a balance of power in place of a French preponderance in Europe, resulted in a period of attempted appeasement. Repeated efforts were made to devise an alternative to the Versailles system. In 1924 France and her associates proposed the Geneva Protocol, embodying the popular formula, arbitration, security, disarmament. But the Protocol implied a new military guarantee by Great Britain against any revision of the whole Treaty settlement by force, and failed on the refusal of Great Britain to enter into further military commitments of this kind.

The Protocol of 1924 was followed by the Locarno Treaties of 1925. These Treaties were prefaced by definite statements by Sir Austen Chamberlain, then Foreign Secretary, that Great Britain could in no circumstances give any guarantees about eastern Europe beyond those which were contained in the Covenant itself. The treaties themselves were of two kinds. By the first Germany agreed with France, Belgium, Poland and Czecho-Slovakia that war should be ruled out entirely as a method of settling disputes, and that arbitration (or conciliation) should be substituted. By the second Great Britain (but not the Dominions) guaranteed the inviolability of the German-Belgian and German-French frontiers, and also the demilitarised zone in the Rhineland, and further undertook, if the Council of the League should be satisfied that a violation of the Treaty or the demilitarised zone had been committed, "to come immediately to the assistance" of the aggrieved Power, and, "in case of a flagrant violation," to do so without waiting for the Council of the League to act. Germany, at the same time, joined the League of Nations.

The Locarno agreements promised, for a time, to lead to an appeasement in Europe. The policy of "fulfilment" under Stresemann, coupled with the response of M. Briand and Sir Austen Chamberlain, restored Germany to the comity of European nations and paved the way both

The Foundation for Disarmament

for the evacuation of the Rhineland in 1929-30, and for considerable reductions in the size of the French army. But it did not lead to a real reconciliation with Germany because it did not lead to a solution of the reparation and war debts problems, or to a reduction of tariffs, or to a reconsideration of those features of the Treaties of Peace which were particularly obnoxious to the ex-enemy Powers, especially the Polish corridor and the Silesian and Hungarian frontiers. Nor did it fundamentally allay the fears of France and her allies, who were not prepared to consider revision and came to regard the Locarno Treaty as of little value on the ground that the Council of the League would be sure to absolve Great Britain from the liability to take immediate military action. In fact, despite Locarno, the complete military domination of France and her allies, as the "sanction" behind the Treaty settlement, was preserved intact. Gradually but inevitably, the "spirit of Locarno" died. Italy withdrew to a position of isolation and of hostility to France, both in the Balkans and the Mediterranean. The demand for "equality," for the cancellation of reparations, and for the revision of the Treaties in eastern Europe grew more insistent in Germany, until it culminated in elections at which immense numbers of votes were polled by Hitler, in the overthrow of the Brüning combination, and the installation of the frankly non-parliamentary "presidial" Government under Chancellor von Papen, an act which began to reawaken anxiety in other countries lest the spirit of the old Imperial Germany should regain control. The von Papen Government formally demanded that a status of "equality" should be recognised by fulfilment by the allies of the declarations about eventual disarmament which M. Clemenceau made in his letter to the German delegation to the Peace Conference, as the only alternative to re-armament. Such a status, which, while it does not imply exact equality of armaments between France and Germany, does imply the end of that

Great Britain and the United States

irresistible military preponderance by France and her allies as the guarantee of the Peace Treaties, which has been the centre of the European system since 1919, and will inevitably lead to a revision of the Treaties, in so far as eastern Europe is concerned, either by consent or by force. We are clearly now on the verge of a new order in Europe.

IV. GREAT BRITAIN AND THE UNITED STATES

THE rejection of the League of Nations and the treaty of guarantee by the United States placed Great Britain in a position of great difficulty, because she did not know the attitude of the United States, and this made it impossible for her to fulfil whole-heartedly her obligations under Article 16 of the Covenant—an article which provided international security against an aggressor and alone could make a general disarmament agreement possible. The primary principle of American foreign policy for 150 years had been to keep out of "European entanglements." Hardly less important had been their opposition to the British doctrine of the right of belligerents to interfere with neutral ships in order to search for or confiscate contraband of war. If the United States had joined the League of Nations this problem would have been largely solved by the Covenant itself, for American, like British, sea power would then have been the ultimate sanction behind the pacific system embodied in the Covenant, and when the Covenant had been broken there would have been no such thing as a neutral. When the United States rejected the League and reverted to isolation, however, not only was Great Britain uncertain whether she would regard action by the British Navy, say, against a Germany violating the Covenant, as a challenge to her own doctrine of "the freedom of the seas," but public opinion in the United States had begun to demand a navy strong enough to enforce observance by belligerents of that doctrine.

The Foundation for Disarmament

The incipient tension between Great Britain and the United States was relaxed by the Washington Treaties of 1921-22, in which the principle of equality was accepted as between the British and the American navies, a large number of superfluous ships of war were scrapped and tonnage limits fixed for the capital ships of all naval Powers, including Japan, France and Italy. The principle of equality was not specifically worked out in the case of cruisers, with the result that a series of acrimonious disputes arose in later years about the cruiser building programme of the two countries and of Japan, which were only composed by the naval treaties drawn up at the London Conference of 1930, which settled the various issues until 1936. None of these treaties, however, covered the cruisers and submarines of the French and Italian navies, and the Anglo-American and Japanese agreements may be upset at any time by a new naval programme being adopted by these Powers.

Nor did the Washington Conference discuss the problem of "the freedom of the seas" and its bearing on the Covenant of the League. The whole question remained in suspense until, mainly on the initiative of the United States, the Pact of Paris, better known as the Briand-Kellogg Pact, was signed by practically all the nations of the world, including both Russia and the United States. By that Pact the signatories declared that "they condemn recourse to war for the solution of international controversies and renounce it as an instrument of national policy in their relations with one another," and they agreed "that the settlement or solution of all disputes or conflicts, of whatever nature or of whatever origin they may be, which may arise among them shall never be sought except by pacific means." Though the Kellogg Pact created no machinery to ensure observance of its provisions, and though it has been held not to preclude the inherent right of self-defence, its ratification in effect ended the isolation of the United States, and made her

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participation inevitable in all international discussions when there was an actual or possible breach of the Pact. The principle of American participation in such consultation was set forth by Mr. Stimson, the American Secretary of State, in August last, in an address to the Council on Foreign Relations, in which he also stated* that

the Pact had changed the whole doctrine of neutrality. War was no longer the concern only of the nations engaged in it, but of every nation in the world. The Pact had provided a means for mobilising the opinion of the world against war, and although there was no provision in it for consultation between neutrals, consultation was implicit both in the Pact itself and in the use which had been made of it in the disputes between Soviet Russia and China in 1929, and between Japan and China in 1931.

Mr. Stimson went on to add that the Pact and the Covenant marked a revolution in international law, in so far as it related to war, and that the principle of consultation under the Pact could be taken as a permanent element in American foreign policy because both the great party organisations had recently embodied it in their programmes.

Although, so far as is known, no discussions have taken place as to how the Kellogg Pact affects action under the Covenant of the League or the Locarno Treaties, and though Mr. Stimson made it clear that the sanction upon which he relied was the mobilisation of world opinion and not the specific economic sanctions contemplated against an aggressor under Article 16, the way is clearly open for a fresh consideration of the whole problem of what common action can be taken by the world collectively, and especially by the British Commonwealth and the United States—the two great sea Powers—to prevent war, to bring it to an end if it breaks out, and to create that collective “security” against an aggressor State, which is the necessary condition of a real and permanent reduction of armaments.

* THE ROUND TABLE, No. 88, September 1932, p. 701.

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V. THE FAR EAST

THE Paris Peace Conference was only able to pay cursory attention to the Far Eastern theatre of war, though it allotted Germany's rights in Shantung to Japan, and the German islands in the northern and southern Pacific respectively to Japan and the British Empire, under mandate from the League of Nations. The real settlement of the Far East took place at the Washington Conference of 1921-22. The elements in that settlement were four. In the first place, the Anglo-Japanese alliance, which had guaranteed Japan against war in the Far East, or interference from Europe, since 1904, and had enabled Great Britain to mobilise the whole of her fighting fleet in home waters as the German navy increased, was allowed to lapse. In the second place, Shantung was restored to China, and all the Pacific Powers, including the United States, Japan, the British Empire and France, by treaty undertook to "respect the sovereignty, the independence, and the territorial and administrative integrity of China, to provide the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable government," and to establish and maintain "the principle of equal opportunity for the commerce and industry of all nations throughout the territory of China." "China" was recognised to include Manchuria. In the third place, a limitation of naval armaments and fortifications in the Pacific which was accepted by the British Empire, the United States and Japan, gives to each effective control of its own zone and makes it impossible for any navy to attack the others effectively. In the fourth place, the Powers agreed to consult together in the event of controversy between themselves or of a threat of aggression by any other Power.

These treaties, with some naval modifications made in

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1930, successfully preserved the peace in the Far East until the Manchurian crisis in 1931. That crisis is discussed elsewhere.* It had, however, the important effect of bringing about a close association between the United States and the League of Nations in order to secure common international action under the Covenant and the Kellogg Pact in defence of the Nine and Four-Power Treaties, in dealing with events in Shanghai and Manchuria, and in the appointment of the Lytton Commission. The principle of world consultation whenever a crisis threatening war and the sanctity of major treaties, even in the Far East, has to be dealt with seems now firmly established. It is the question as to whether such consultation will be effective as a force for the just and reasonable settlement of disputes by pacific means which gives such great importance to the forthcoming deliberations at Geneva on the Report of the Lytton Commission.

VI. REPARATIONS, WAR DEBTS AND ECONOMICS

THE Peace Conference utterly failed to deal with the economic realities of the post-war world; it recognised without demur the new economic boundaries created by the high tariff succession States of Austria-Hungary, and the delegates went cheerfully home hugging claims for reparations and war debts running to astronomic figures. In this respect, too, the situation was rendered more acute by the refusal of the United States to co-operate under the Treaties. For the Treaty of Versailles, though imposing gigantic reparation obligations on Germany, provided for the creation of a Reparations Commission of five, on which the United States representative was expected to exercise an impartial influence and to have a casting vote. The Commission was instructed to assess the actual amount payable by Germany within two years, on the basis

* See p. 65

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of what it considered she could in fact pay. The withdrawal of the United States gave the chairmanship and the casting vote to France, and paralysed the intended working of the Commission. *

The economic consequences of the triumph of the ideas of 1919 were foreseen by many, but their warnings made but little impression upon public opinion. The indomitable energy of agriculturists, capitalists, business men and workers achieved miracles in making good the wastage of war, and in reconstructing industry and agriculture and reorganising distribution and exchange, so that within a few years of the armistice, the production not only of the world but of Europe exceeded the level of 1913 (the rise of population was 11 per cent., and of production 30 per cent.). But the barriers in the way of permanent recovery presented by tariffs, subsidies, war debts and reparations eventually had their inexorable effect. For a time the borrowings of prostrated countries, and later of Germany, from Great Britain and the United States, disguised what was really going on. But as nation after nation, in their efforts to make themselves self-sufficient, both in agriculture and manufacture, diverted capital and labour from natural economic channels into the development of industries of all kinds for the supply of which ample plant already existed elsewhere, subsidised the production of foodstuffs and raw materials within their own borders when world supplies were already excessive, and endeavoured to transfer, through the exchanges, the huge payments required by war debts and reparations, obligations which represented not economic construction but the devastation of the war, the economic balance of the world became more and more upset. Efforts were made to diminish the impediments to trade at the International Financial Conference of 1920, and later at conferences held under the auspices of the League, but without practical result. The debts to the United States and Great Britain were scaled down from their nominal totals in 1922-25; the Dawes Committee

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in 1924, and later the Young Committee in 1929, made some reductions in the reparation obligations that France in 1923 had marched into the Ruhr to enforce. But none of these measures were sufficient to remedy the fundamental dislocation caused by the war, the peace settlement, and economic nationalism. As the dislocation became worse, nations hastened to protect themselves by yet higher tariffs, exchange restrictions and subsidies of all kinds, expedients which only aggravated the disease. As a result, during the last two years, we have witnessed the most prodigious economic collapse that history has recorded since the advent of the machine age. World prices for most staple commodities are below the cost of production, the international gold standard, so laboriously restored in 1925, has gone, unemployment in every country has risen to heights previously unknown, and the economic structure of modern civilisation is clearly threatened with collapse. In this crisis reparations have at last been given a decent burial. It is inevitable that inter-allied debts should go the same way, because for every pound or dollar the national treasury receives, at least ten times as much is lost to trade. But the end is not yet in sight, for the reason that the capitalist and individualist system, which has raised the standard of living of the world so immensely in the last century, can only function properly if given a reasonable degree of freedom. Under the restrictions placed upon it by war taxation, war debts, and nationalist impediments to trade, the system itself is beginning to run down, with repercussions, political as well as economic. The Peace Conference created in the Covenant a means of abating political nationalism, and in the International Labour Office an institution whereby the standard of social protection for labour might be made uniform. It is obvious that, if the world is to recover, the nations must limit economic as well as political nationalism. They must create something like an economic covenant of nations, which would limit tariff barriers and sub-

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sidies, as armaments should be limited, and impose certain minimum standards of international decency in economic affairs.

VII. CONCLUSION

IF the whole field of international policy during the past twenty years be surveyed, four broad conclusions seem to stand out. The first is that the ideals underlying the Covenant of the League of Nations and the Kellogg Pact are entirely sound, and that the peace and progress of mankind depend upon their practical realisation. The only alternative is international anarchy with its correlatives, competition in armaments, peace settlements which are inherently unstable because they are imposed by force and therefore usually unwise and unjust, and periodically recurring world war. But if the Covenant and Kellogg Pact system is to prevail, it must prevail universally, in the Far East and South America no less than in Europe, and it must become indubitably clear that the nations mean to take effective common action to restrain aggressor nations which take the law into their own hands. Otherwise, no disarmament is possible, and competitive armaments will precipitate a new war. No doubt the validity of this new international system cannot be established all at once. Difficulties, too, arise from the fact that the sanctions behind the international system depend, in practice, mainly upon the British Empire and the United States, except in Europe, and there is as yet no clear understanding as to where the United States will stand, when violations of the Pact, and of international treaties to which she is a party, are in question. None the less, the first duty of any British foreign policy worthy of the name is to maintain the League and Kellogg Pact system, and, in association with the United States, to strengthen the collective action in support of it, upon which its effectiveness and a successful issue to the Disarmament Conference depend.

Conclusion

The second conclusion is that in Paris the League system became far too much enmeshed in the internal politics of Europe, with unfortunate results for both. On the one hand, it led to the withdrawal of the United States from the League, on the ground that she was determined not to be entangled in the vortex of internal European politics. On the other hand, it left Great Britain half in Europe and half out, thereby encouraging France and her associates to think that it would be possible to maintain permanently an irresistible military sanction behind the Treaties of Versailles, instead of setting to work to produce a reasonable and agreed equilibrium for Europe herself inside the larger League. It is essential alike for the development of the League and Kellogg Pact system and for the real pacification of Europe that both the United States and the British Empire should withdraw from the domestic politics of Europe, so that a regional European structure may come into being, with an interior stability of its own, because it would represent general consent and no longer would rely for its stability on outside guarantees, beyond the general guarantee afforded to all States, members of the League and signatories of the Pact. This will involve a revision of the Locarno Treaty of Guarantee, for the clauses about the demilitarisation of the Rhineland cannot form part of a permanently pacified Europe, are dangerously ambiguous, and inspire no confidence in either France or Germany. Great Britain has a part to play in a regional European system, but that part should be based on realities tested by history, or the fact that she is actively interested in the maintenance of the integrity of Belgium and of France, but will not entangle herself or take part in struggles in which even these Powers may be involved, if they are concerned with other parts of Europe.

The third conclusion is that any lasting solution of the European disarmament problem can only follow a reconsideration of the Peace Treaties if it is voluntary and excludes nothing except the Western frontier of Europe, finally settled

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at Locarno. For no permanent basis of peace can be found by trying to create guarantees behind imposed political settlements, which are not agreed upon and do not command general consent. The question of revision is inseparably intermingled with that of disarmament. France now realises that her real security depends on preventing the re-armament of Germany, and on substituting for the Treaty of Versailles equality in armaments which are in future to be defensive and not offensive in character. But the guarantee against revision has hitherto been the military preponderance of France and her allies, and equality in armaments removes that guarantee. If the Disarmament Conference succeeds, it will only be because it has become accepted that, in the near future, the whole question of the revision of the eastern European frontiers is to be taken in hand, that this revision is to be effected by agreement and not by force, and that Great Britain and the other members of the League, and the United States under the Kellogg Pact, will regard attempts to bring about revision by force as a violation of these pacts. When this point has been reached, there will be good hope that Europe, though the negotiations may be long and difficult, will have taken the road to lasting stability and peace.

The fourth conclusion is that all the political goodwill in the world will not achieve permanent stability unless the effects of economic nationalism are mitigated by international law. Nations, like social classes, cannot be expected to behave reasonably when they are suffering from poverty and unemployment caused by the economic action of others. Whatever the ultimate economic system may be, the immediate need is to restore the system of private enterprise, which worked such marvels in recent decades, to normal efficiency once more. The individualist system, whatever its defects, has not failed. If it were allowed to function freely once more, the world would begin to progress again as it did during the nine-

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teenth century. The crisis of to-day is caused by politics, by political interference with economic freedom in the form of tariffs, excessive taxation, exchange restrictions, debts and subsidies, the results of which present gratuitous evidence to those who seek to remedy them by revolutionary action. It can be ended by removing these political impediments. If we are to move forward, the immense gap in the international system created by the Covenant and the Kellogg Pact must be filled. The nations must recognise that the mad pursuit of national self-sufficiency and economic nationalism is involving all alike in ruin, exactly as did the pursuit of national security by means of armaments and political nationalism before the war. It is essential that limits should be put to international barriers to trade, that nations should recognise that they must not take economic action calculated to damage or ruin their neighbours, without conference and consideration, and that their primary common interest is, by common action, to promote the prosperity of the world as a whole. Is it too late for an economic covenant among the nations to take its place alongside the political and the labour covenants already in being?

In all political affairs it is necessary to take into account both the long and the short view. No attempt has been made in this article to consider what the next move in the great series of disarmament, political and economic conferences now taking place should be. But just as the earlier series of conferences which have met since 1919 failed because the delegates were usually concerned to deal with the immediate difficulty rather than to consider first principles, so to-day what is most needed is to discover the foundations upon which permanent settlements can be safely based. The justification of this article is that it attempts to make such a survey.

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Later.—Since this article was written, the French plan for disarmament has been proposed. It is too early as yet to judge of the international reactions, or of the merits of the plan itself. But this can be said immediately. It takes one vital step forward, for it appears to concede the principle both of equality and of revision. It is no longer based upon the unequivocal maintenance of the whole treaty settlement. As such, we may welcome it, as the most important advance towards lasting peace made in recent years. But to be effective it must also, we think, recognise that the permanent basis of European peace cannot be a regional pact designed to maintain a settlement which satisfies only half of Europe. It must be a pact to maintain a settlement representing general consent. For consent is the only guarantee which will last.

Sir John Simon's speech of November 10 also represents a step forward, for it recognises fully the German claim to equality, though it rightly stresses the fact that to secure equality in practice a reaffirmation by Germany of her willingness not to attempt to revise the treaties by war is required, in order to dispel the suspicions raised in the rest of Europe by the extravagances of the Hitler movement and the speeches of General von Schleicher. Both the French and the British statements also imply that the solution of the problem cannot be made to depend upon further guarantees by Great Britain or the United States. Though we are by no means out of the wood, and it is not yet certain that Germany will return to the Disarmament Conference, the events of the last few weeks certainly give ground for renewed hope.

THE TASK OF THE WORLD ECONOMIC CONFERENCE

I. INTRODUCTION

THERE is some reason to hope—at any rate the world for whatever reason is beginning to hope—that the greatest financial and economic depression ever experienced has reached its nadir. Perhaps human minds must necessarily react after a time from unrelieved gloom. Perhaps like other toxins the toxin of the crisis produces automatically its anti-toxin. The improvement, it is true, is as yet apparent mainly in the stock exchanges, where psychological influences have a free field, often without much regard to actual developments in the outside world. Nevertheless it is a suitable moment to take a bird's-eye view over the stricken field and to see if one can descry any fresh movement of life.

If one is to express an opinion of any value as to the future course of events—and none of us, not even the wisest economist, can see beyond a few steps into the future—one must obviously hold some view as to the fundamental causes which have brought the world to the present pass. The public in general may well be excused for being bewildered. Some authorities tell them the disaster is due to the scarcity of gold; others to its maldistribution; others again see its origin in a greatly increased power in many directions of wealth production, or in other words, believe that there is scarcity *because* there is too great plenty; the Labour party again, whose reactions to an infinitely complex world are usually of a simple anthropomorphic character, have fixed upon the bankers as the all-powerful instruments of the Satanic will. To all those who wish to study in some detail the origins or the course of the crisis the writer would recommend the informing

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and comprehensive volumes: *The Course and Phases of the World Economic Depression*, and *The World Economic Survey*, recently published by the League of Nations. They well illustrate the complex and baffling nature of the problem—or rather the whole series of problems—with which the world is faced, and they must convince any reader whose mind is not encrusted with prejudice that a solution must ultimately depend far more on the daily and hourly efforts of multitudes of individuals and institutions all over the world to adjust themselves to the new economic conditions which press upon them, than on any conscious decisions or actions of governments. In these few pages the writer can do no more than sketch with the broadest brush his view of the fundamental influences at work.

At bottom the causes of the crisis are not economic—not even monetary—but political. The crisis springs directly from the war of 1914-18 and from the post-war policy (the antithesis of mutual self-help) pursued by the leading nations. It is in its origin essentially a political crisis. The pressure of circumstances forces the whole financial and business world year by year more and more to attempt to transcend national boundaries; such a process is spontaneous and inevitable; it is indeed the only way to attain that material prosperity which, *granted political peace and stable economic conditions*, now lies open to all countries and peoples. The process leads necessarily to the growth of a delicate and complex system of international credit, and indeed of international economic and financial relations. In the most favourable circumstances and with the wisest co-operation that system will suffer from ups and downs, from severe stresses and strains, and it will without question be smashed—as it has been smashed—by great wars and enduring national animosities. It is then that, as a climax of misfortune, the instability resulting from the rupture of all these ties forces each nation back on itself. Its neighbours appear to be the culprits and, in the attempt of each at self-defence, the international

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mechanism is still further damaged and the economic and financial world thrust still further down into chaos.

We have in fact reached the moment when we must all make our choice. If we cannot forgo the luxury of national hatreds, national distrusts and selfishness, then we must limit our prosperity and our standard of living to that which each nation, living more or less to itself, can achieve. If we wish to secure the far higher standard which should be within our reach we must all live at peace.

II. THE CAUSES OF THE CRISIS

IF the world is to proceed on a more or less even keel, disturbed only by the normal instability of the trade cycle, then international trade and commerce must be reasonably free, the production of each nation be more or less in equilibrium with the demand, internal and external, the relative position of the creditor and debtor nations only change to that moderate degree to which the world can in any brief interval of time adapt itself, and monetary and credit fluctuations must be reduced to a minimum. All the great nations must either be attached to a single international monetary standard and have sufficient internal elasticity to adjust to it their interest rates, price levels and money incomes, or, if they have—as, for instance, we have now—their own domestic currency, they must make every effort to keep the fluctuations in its value relative to that of other currencies within the smallest limits.

To use other words, nations must, in general, advance step by step together, the changes in their relative conditions not being too sudden and abnormal. Changes in relative economic strength must no doubt be constantly proceeding. Some countries will be falling back and others coming to the fore. Some will no doubt be richer than others; some will accumulate day by day a credit balance in respect of their claims on other nations, as against the claims of others on themselves, and these others will face a debit balance which they must temporarily

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adjust by long or short loans or by shipment of gold. But obviously these inequalities must be kept within comparatively narrow limits and nations must proceed on the basis of buying from and selling to one another rather than of borrowing or lending. For a nation with a balance of claims in its favour against other nations must either lend an equivalent sum back to the debtors or take payment in gold. If the balance becomes too large, either course must end in disaster. The second course will quickly destroy the international monetary standard ; the first will merely postpone the day of reckoning. Nations, like individuals, must restrict their borrowings within the limits of what they can use to produce the means of paying interest and redemption, and these limits it is only too easy for a nation to overstep. If they are generally overstepped, then a crisis matures which, through a fall of prices and general profound economic disturbances, adds enormously to the burden and makes an indebtedness suddenly become intolerable which, had no crisis intervened, might have been supported.

All this gradual process of change and adjustment which had been proceeding during many years before the war, and under which the world was rapidly increasing in wealth, was smashed to pieces by the war. While the belligerent nations were building up to an unparalleled degree industrial plant required for the war, part of which could later be turned to peaceful uses, and were also stimulating as far as possible their production of food and raw material, the neutral nations were also engaged in developing production in directions of which they before had never thought. The world found, therefore, at the end of the war its equilibrium as regards production entirely disorganised, and for various reasons has never yet recovered it.

The war left many nations impoverished, but one, the United States, much richer, at least in its claims on other countries, having been transformed in a few short years from a country heavily in debt to the rest of the world to

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one heavily in credit. Not only had they during the war collected large supplies of gold, but this process continued afterwards. Their huge surplus of exports over imports, which had its origin in war necessities, lasted for years afterwards. Now it is possible that, given the most far-sighted wisdom on the part of the world's rulers, the great disequilibrium caused by the war might have been overcome and the main countries brought once more to advance more or less step by step, had international trade and competition been freed and tariffs lowered, had price levels and internal economic conditions been able freely to adjust themselves to the new conditions, and had international indebtedness been kept within moderate limits.

But the course of affairs was wholly different. Tariffs were raised ; internal conditions were found to be more rigid than before the war, and above all, the already great disequilibrium between the creditor and debtor countries received a staggering intensification by the insistence on huge reparations and on the payment of war debts. Let us very briefly trace the chief consequences. First were the consequences of the war and the American Government's policy as to war debts on the United States, and through them on the world. The United States, not taking goods freely, balanced their account by lending large sums to debtor countries at high interest rates rather than by buying goods from them. In the first years after the war, these loans were mainly to non-European countries—*e.g.*, South America—and encouraged an extension of credit there, and an increased production of food and raw materials. London also continued, though on a much smaller scale, its pre-war foreign lending. The non-European debtor countries thus developed the habit of basing their economy on a continuous receipt of foreign loans. Meanwhile, Germany and some other European countries had suffered from an enormous inflation of currency due partly to the pressure of reparation payments and all the concomitant political troubles, and had in consequence been drained of a large part of their internal

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working capital. Into this vacuum the United States (and to a less extent, Great Britain and other creditor countries) began to pour loans, short and long, and during the years 1925-29, Europe equally showed a great increase of production and prosperity, and European conditions also were largely based on a constant receipt of loans.

All this while, however, the gold accumulated in the United States during and after the war had been working out its effects in a vast extension of credit, which caused a huge security boom. American investors, finding what appeared to be greater opportunities of profit at home than abroad, began to lose interest in foreign loans, and simultaneously investors throughout the world, drawn towards the huge and apparently profitable speculation in New York, transferred very large sums from their own countries to the United States. This double strain on the debtor countries, which relied on a large import of capital to balance their account, produced a crisis, and the fall of prices began, first in South America and other raw material countries, and then in Europe. A few months more and the American boom itself collapsed, with the effects of a great restriction of American prosperity and a tremendous fall in American requirements in the way of foreign raw materials, which naturally fell much further in price. This was a second and still more staggering blow to the world, and particularly to the raw material and food-producing countries.

Several other events conspired to deepen the confusion. The strain on all gold countries, creditor and debtor, had been intensified, not only by the drain towards the United States owing to the boom, but by the still more severe drain towards France due to the repatriation of French balances sent abroad during the currency depreciation.

Moreover, accompanying these huge swings of capital backward and forward from country to country in post-war years, there had been a rapid cheapening of the cost, particularly of agricultural production, which would probably in any case have brought a considerable fall in prices. An

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accumulation of difficulties, therefore, fell upon the raw material and food-producing countries. They found the burden of their debts, which in some cases even before the fall of prices were too large, growing heavier and heavier, while the value of their exports fell enormously as a result mainly of the crisis itself, but partly also of other and more permanent causes.

As the depression deepened, all prices fell steeply, and when finally an acute financial crisis supervened on the economic and industrial crisis, all debtor countries, and particularly Germany, with its huge short-term debt, were overwhelmed with difficulties, which they had no means of surmounting.

The main cause of this unparalleled crisis was not, therefore, the shortage of gold, nor was it reckless international lending in the form of long and short loans by bankers. It was the profound inequality between one nation and another produced by the war and greatly exaggerated by the post-war policy of reparations, war debts and tariffs, which led to the equal but contrary disasters of vast credit inflation in the United States, because of their unbalanced creditor position, and equally vast currency depreciations in Germany and elsewhere, because of her unbalanced debtor position. These instances of fundamental disequilibrium were masked, in the case of central Europe on the one hand, and the raw material-producing debtor countries on the other, by the process of lending and borrowing in place of increased buying and selling.

It is easy to see now that only a great increase in international trade, so great that it could hardly be anticipated, could have rendered the burden of some, at any rate, of the debtor countries tolerable. What no single human being could, or at least did, foresee, was the combination of circumstances which brought about the disaster. Bankers cannot see further than other human beings. The peoples and their rulers had produced a condition of affairs, where some countries had overgreat sums to lend abroad, and others were stripped even of their working

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capital. The bankers tried to right matters by lending the surplus of the rich nations to the poor, a process which, when conducted under normal conditions is, as all economists tell us, essential to the world's prosperity. There were few cases in which issuing bankers failed to take great pains to protect the interests of the lending investor. But neither the chief banking houses and banks of the world, nor the Financial Committee of the League of Nations, nor the experts of the Young Committee foresaw that their work was built upon sand. If "national planners," whose aim is to replace the free play of economic forces by the decisions of human reason, ever have full play, they will find that this complex, dynamic and changing world is a dark forest into which the vision of human foresight can penetrate but a little way. The delicate fabric of international credit and exchange can only be woven through years of peace and stability and by the efforts of multitudes of human beings guided more or less unconsciously by economic forces. As the nations of the world are drawn closer together and the fabric becomes ever more closely interwoven, the disaster likely to be caused by war and national animosities becomes ever greater. The confusion into which the world is now thrown is the direct consequence of the great war, and years must pass before the stability of 1914 is recovered.

III. THE CONSEQUENCES OF THE CRISIS

THE following information and figures, taken in the main from the *World Economic Survey*, published by the League of Nations, will bring home the extraordinarily acute nature of the crisis.

(1) There has been an unprecedented fall in industrial production of which the following figures present a sample. If 1928=100, German industrial production had by May, 1932, fallen to 58, the United States to 55, France to 73.

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The table given below indicates how much more the production of "investment goods," *e.g.*, timber, iron and steel, cement, machines, commercial motors, electrical motors and so forth has fallen than that of "consumers' goods," *e.g.*, foodstuffs, paper, clothing, furniture, tobacco, etc.

INDICES OF PRODUCTION OF INVESTMENT AND CONSUMERS' GOODS FOR
THE FIRST QUARTER OF EACH OF THE FOLLOWING YEARS
(1925 to 1929=100.)

Country	Grouping	1929	1930	1931	1932
Germany ..	Investment goods	105	100	72	46
	Consumers' goods	108	103	86	86
United Kingdom	Investment goods	105	108	83	78
	Consumers' goods	99	94	85	93
United States..	Investment goods	110	96	65	35
	Consumers' goods	104	95	88	83

The great fall in the output of investment, or producers' goods, is in part caused by the fact that the prices of these goods have fallen far less than the prices of consumers' goods. Raw material prices as a whole have fallen heavily, but prices of finished goods have not fallen as much. The resistance to any reduction of wages and other charges, which enter into the cost of finished articles and of some raw materials for producers' goods, *e.g.*, minerals, has been greater than the resistance in the case of the less organised agricultural and raw material industries. To bring closer together these two sets of prices is one of the crucial problems to be faced.

(2) International trade shows an enormous reduction. World imports and exports have fallen from \$59,491 millions in 1929 to \$34,479 millions in 1931, and there has been a further continuous fall in 1932. In fact, in the first four months of 1932, the value of international trade was only 42 per cent. of what it was in the first four months of 1929, and the decline has continued.

(3) The fall in wholesale prices is indicated by the following few figures. The wholesale prices of commodities freely bought or sold in organised world markets have dropped between 1929 and 1932 by 55 to 60 per cent.

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The average fall in all wholesale prices had by June, 1932, reached in gold standard countries between 30 and 40 per cent.

(4) At March 31, 1932, the United States and France held \$6,995,000,000 gold in their central banks out of total central bank gold reserves in the world of \$11,236,000,000.

(5) It is estimated roughly that in the spring of 1932 there were 20-25 million workers unemployed in the world.

(6) In a desperate effort by each country to find some shelter from the economic storm the imposition of restrictions upon commerce has assumed ever growing proportions. The ground is littered with "standstill agreements," exchange controls, increased tariff barriers, contingent and quota systems, import prohibitions, export bonuses, clearing and barter systems, etc., etc. However inevitable it is that nations should have been driven down this road to economic nationalism by the complete collapse of equilibrium, international trade must necessarily suffer from every one of such measures.

(7) By the huge fall in prices, quite unprecedented in any known crisis, the burden of internal and external indebtedness in every country, which by 1929 had risen generally to very high figures, has been rendered almost intolerable. The weight of fixed indebtedness, added to the rigidity of wages and other fixed charges, has thrown an unbearable strain on the small section of every community upon which rest the risks of enterprise.

(8) Short-term indebtedness, due especially from European countries, and particularly Germany, has grown to very large proportions. With failure of confidence all creditors require repayment at once, and no country has the means of making it. Exchange control represents the only, but an extraordinarily harmful, method of preventing immediate currency depreciation. The solution of this deadlock represents one of the most urgent problems.

(9) These vast economic and financial changes have largely destroyed the international monetary systems based on the gold standard. The extraordinary maldistribution

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of gold reserves, the very large liquid short-term balances now ready at a moment's notice to fly from one country to another, and the complete lack of confidence among depositors and investors throughout the world present exceedingly serious obstacles to its restoration. No monetary centre now exists in the world in which there is unquestioned confidence.

This short catalogue of what could only be described fully in a volume indicates the unparalleled acuteness of the crisis. It affords a striking—too striking—illustration of the consequences of a great war upon our modern civilisation. It may well be that human nature, and particularly perhaps democratic human nature, cannot yet rise to the level of goodwill which alone is consistent with the working of the complex international machine erected almost unconsciously by mankind in the last fifty years. If so, we shall have to return to a simpler system based more on national self-sufficiency. What the consequences would be on the general standard of living, and whether the present population of Europe could even be supported at all, would remain to be seen.

The last two or three years have witnessed a desperate effort on the part of nations, governments, banks, industries and individuals to keep their balance and to maintain their solvency amidst the earthquake. Each unit has had perforce to take such steps as seemed likely to help it to stand upright regardless of their effect on all other units. A process of universal liquidation has followed with disastrous results. In order merely to meet its obligations, so far as it could, and to save its currency from collapse, each debtor nation had to limit its imports, knowing full well that these imports were its neighbours' exports. Its neighbours followed suit. Since you cannot both have your cake and eat it, the exports of great creditor nations like the United States and France were necessarily cut to pieces, for no one could pay for them. Most governments and whole financial communities, *e.g.*, in Germany and central Europe, have been unable to meet

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their obligations. Similarly, banks in all parts of the world, faced with a universal lack of confidence and credit and with the inability of their debtors to pay them, have seen the necessity of having regard solely to their own liquidity and solvency, and have had to call in loans and restrict all new business. The countries which could now place a foreign loan in any centre in the world could almost be counted on the fingers of one hand. With the painful memory in their minds of their colossal losses it will be long before the confidence of investors in such loans returns.

This vast process of liquidation and restriction has, however, not achieved equilibrium. No main problems have yet been solved. But it may perhaps be said that the foundations are being laid upon which ultimately some new superstructure may be erected by the forcible and even temporarily disastrous process of levelling the too great inequalities between debtor and creditor nations. The surpluses of the creditor nations are being destroyed; the debtors are, by default, or by accommodation with their creditors, or by reduction of imports, striving to bridge the gap in their debit balances. It was argued above that a fundamental cause of the crisis lay in this too great inequality between nations, arising from the war, and greatly accentuated by post-war policy. However painful, therefore, the process appears inevitable. There is no way of escape by lending more money to nations already too deeply in debt. Like individuals they must live within their means. But in the urgent necessity of finding this new equilibrium, all nations have been forced down to a lower standard.

IV. THE REMEDIES

THERE is no specific remedy for the confusion into which the world has been thrown. Yet there is no doubt in which direction relief must be sought. It is by a movement towards the liberation of private enterprise,

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industry and commerce. That, indeed, is not the direction in which the world has been travelling since the war, nor in which democracies have recently looked for a solution—democracies like short cuts and simple remedies. It is comforting to believe that the disasters that have overtaken the world are the inevitable outcome of private enterprise, rather than of war and its aftermath, and that the path to recovery is through a wider and wider extension of governmental and other bureaucratic activities, and through “national planning,” presided over by those who have been fortunate enough, or expert enough, to secure a majority of votes. The advocates of planning forget to enquire into the competence of those who are to take on the stupendous task, under which the rulers of Russia are now staggering, of guiding all the activities, great and small, of the millions of human beings which comprise a nation. They forget the narrow limitations of human brain power and foresight.

It is easy for Dr. Dalton and Mrs. Leah Manning and their friends to move resolutions to nationalise all banking and a few other trifles. What is of more importance to the people is whether these ladies and gentlemen would have the capacity, experience and strength to administer so huge an enterprise, or even to choose and supervise those who could. The members of a government in a great modern State are already set problems which in number and complexity are almost more than human beings can master. How are they to add to their burdens a thousand-fold? And if they merely delegate their authority to others, what becomes of responsibility to Parliament and of that central control on which the efficacy of national planning must depend? The international economic and financial machine cannot be run in this manner.

When governments take a step forward towards the control of industry or finance, private enterprise takes two steps backwards. The intervention of governments, it is as well to remember, must be nearly always national and not international in its character, and for that reason, if more widely extended, can only enmesh the world in a net of

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rigidities and controls which will finally destroy all progress and initiative. Governments have a vitally important sphere of action, but they cannot replace the spontaneous energy of whole nations.

Let us enumerate the main problems which will face the World Economic and Monetary Conference:—

- (1) How to secure a rise in the wholesale prices of world commodities.
- (2) How to adjust the dislocation between the prices of raw materials and food and those of manufactured articles.
- (3) How to lighten the burden of indebtedness, internal and external, including war debts.
- (4) How to solve the problem of short term debts.
- (5) How to diminish tariffs, and abolish exchange controls, clearing schemes, quotas, prohibitions, etc.
- (6) How to restore a sound international monetary standard.

In facing all these problems the sole preoccupation of the Conference should be—what can governments do to free these brakes sufficiently to release the wheels of private industry and commerce.

If the first object could be achieved and world prices were to rise substantially, the second, third and fourth problems would all be on their way to solution also, but the influence of governments and central banks on prices must be indirect. They can keep money and credit cheap and plentiful. They cannot secure that industry and commerce can immediately make use of it.

Governments can, of course, engage in huge public works themselves, and high authorities urge them to do it, even in enterprises which are in no sense economically remunerative. Whether this is a sound policy must depend on whether ultimately production is increased and more capital and labour employed by this method than by keeping government and municipal expenditure within normal bounds. In general, our opinion is that abnormally large public expenditure will be more than counterbalanced in its good effects by the disadvantages to industry in the way of higher charges for rates and taxes and other drawbacks. To bring about a true revival of industry is far more

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important than temporary and spasmodic public expenditure. The real utility of cheap money is gradually to lower the rate of interest, not only for governments, but for all industry, and so make profitable many constructive enterprises which could not otherwise be embarked upon. But its effects are slow and must be given time to manifest themselves. It is all important too that cheap money should rule in all great centres and not only in one or more. One centre cannot go far ahead of the others without danger. As to the adjustment of prices of raw material and finished articles respectively, it is clear that governments can do nothing except encourage the free play of economic forces by which alone can the correct result be attained.

The second and allied problem is that of indebtedness. Most indeed of the problems which require solution are the direct consequence, partly of the unprecedented fall in prices, and partly of the fact that that fall has been much more severe in certain groups of commodities than in others, thereby adding a still further serious cause of dislocation. Or if one looks at the other side of the medal, it is the enormous increase in the burden of indebtedness, taxation and all fixed money incomes on the one hand, and the abnormally low price of raw materials and food products, as compared with manufactured articles, particularly producers' goods, on the other, which are the great obstacles in the way of a general resumption of activity. The disastrous effect of so great a fall of prices was depicted in strong terms by the Macmillan Committee, and is constantly harped upon by economists. It is doubtful, however, to what extent it is appreciated by the public. In the international sphere the wholesale defaults of debtor countries are clear evidence of the consequences, but it is not always realised that internal indebtedness, which after all is far larger in amount, presents still more serious problems. The national income in all countries is very greatly reduced; yet owing to the fall of prices a greatly increased portion of that reduced income goes to

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the possessors of fixed money income, rentiers, wage earners and officials, leaving too little to the shareholders and the enterprising classes, e.g. farmers and business men who take the risks of enterprise, to make their activities worth while. It has been estimated, for instance, that in 1928 taxation and fixed charges for interest on non-government bonds, and on mortgages and other debts (altogether excluding payment of fixed money incomes such as salaries and wages) absorbed about 17 per cent. or 18 per cent. of the national income of the United States, and to-day, with the decrease in production and fall in prices, they absorb 40 per cent. Can the rest of the community live on the balance, or commerce and industry support the burden? The same internal problem in greater or less degree faces every country, indeed every government, State, municipality and industry, and also any individual, who owes money on loan or mortgage. Added to this increased burden of debt and taxation is the fact that all salaries and wages, unless reduced in more or less the same proportion with the fall in the cost of living, take an increased share out of the product of the concern that has to pay them. Thus almost every business is hit from both ends. Its profits decrease and its payments, fixed in money, absorb a larger share of the decreased profits. The shareholder and entrepreneur is ground between the upper and nether millstones. Enterprise languishes and unemployment increases. It is the unemployed, the entrepreneur and the shareholder who suffer.

It would at first sight seem to be logical and equitable that all debt charges and fixed money incomes should be automatically decreased more or less in proportion to the fall of prices or the change in the value of money. But the practical difficulties are immense. Germany, under Dr. Brüning's guidance and under extreme economic pressure, made an effort to reduce all fixed money incomes. In England the forces of resistance would be much greater, and moreover a compulsory reduction of interest would be quite inconsistent with the opposite policy of reducing

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debt by conversion. Furthermore, if debts were to be written down because money had risen in value, they should be written up if money fell again, *i.e.*, if prices were to rise.

In our view, all progress depends on maintaining the principle that debt must be firmly based on contract. If the debtor is under obligation to do what he now finds he cannot do, debtor and creditor must come to an accommodation. Each case must be considered on its merits and by the parties concerned, since each case differs from every other. This road is a long and difficult one. It is being followed and has been followed daily for two years or so by all debtors and creditors. Something, indeed much, has been done. Governments are carrying through funding schemes; companies are reorganised; conversions are arranged; debtors are given time. By divers means debts are reduced or repaid. But, unless prices rise, the complete task of reducing debts in proportion to the rise in the value of money must be a very lengthy process. It is not, however, a process in which governments can do much by intervening. It is possible that government credits might be used to fund a part of the short term indebtedness of European countries. But, by and large, debts must be settled direct between debtor and creditor. It would be impossible for a world conference of governments to announce to the world that debtors were free unilaterally to write down their debts.

The problem must be and will be tackled from two sides. World prices will, with any sign of recovery, rise and day by day debts are slowly being adjusted. In the past twelve months or so Germany, for instance, has repaid probably between 20 per cent. and 30 per cent. of her short term standstill debts. With a return of confidence and a recommencement of the flow of capital into Germany this process would be accelerated.

From the point of view of the restoration of the international monetary and credit machinery, a solution of the problem of short term banking indebtedness, and particu-

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larly of Germany's indebtedness, is far more pressing even than that of the long term, perhaps indeed the most pressing problem of all in view of the extraordinarily harmful character of exchange controls. The difficulties are of a most perplexing character, and become greater, the more all the countries concerned take steps which seem necessary to protect their vital interests, but which, in fact, reduce inevitably their own and all other countries' foreign trade. No immediate solution is in sight. There seem to be two broad alternatives. The one is that the governments of both debtor and creditor nations should combine to untie the Gordian knot by the use of their credit, so that money can be obtained from the investor in the creditor countries, which would unfreeze the banking advances, the bankers remaining liable to the governments for any ultimate loss. There can be no question that such assistance given by governments would repay them and their people many times, if thereby the central European exchange controls could be eliminated and trade and credit move more easily. But the proposal that even temporary assistance should be provided by governments raises at once political difficulties, at any rate in the case of the creditor-countries, which are, it may well be, insuperable.

A less comprehensive scheme might be for the governments of the debtors to offer to fund at any rate part of the debts by substituting for them a government bond.

If debtors and creditors are thrown back purely on their own efforts, then the debts must be gradually reduced by various means and through various channels, as, in fact, is happening now. If confidence returns and if the whole world moves forward, the problem before long might be found to have reduced itself to more manageable proportions. If the depression continues unabated, this road may be a long one. Meanwhile, exchange controls and other impediments to recovery will continue to exercise their baleful effects.

There is, however, one species of debts, namely war debts, which lies wholly within the sphere of action of

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governments and which, if the analysis of this article is right, requires urgently to be dealt with. The payment to the United States of these huge sums continues the process which lies at the root of the crisis. It is unnecessary to say more here. The history of this subject offers a supreme example of "national planning" and of the difficulties which may be expected to arise when all industry and finance are controlled by governments, and each government is controlled by an uninformed public opinion.

We come then to the fifth point, the diminution of tariffs, the abolition of exchange controls, the raising of moratoriums, and so forth. There is no doubt that here governments can do much. But it is to be borne in mind that these impediments, in so far as they have been interposed recently, are the direct result of the disequilibrium produced by the fall of prices and the consequent extra burden of indebtedness. The true escape lies in a rise of prices, in a solution of the short term debt problem and in the adjustment, where necessary, of the long term. When nations see their way to make both ends meet as regards their external obligations, and to release exchange controls without the collapse of the currency, most of these barriers will disappear. The dilemma is the usual vicious circle. Exchange controls cannot be withdrawn before the return of confidence, and confidence waits on the withdrawal of exchange controls.

The last question referred to above, and in the long run much the most important, is whether an international monetary standard can slowly be restored, or in other words whether the international gold standard can be reconstituted, since in fact no other practical alternative presents itself. This is much too big a question to be adequately dealt with here, and reference can only be made to a few broad considerations. It has already been shown above that the war and its consequences, together with the change in the psychology of investors, as the result partly of a speculative boom and partly of an ultimate collapse

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of confidence, put certain creditor countries into the position of forcing the rest of the world to pay its debts to them, not in goods nor out of the proceeds of foreign loans, but in gold. It is obvious that if these creditor countries are to continue to enjoy a credit balance and to enforce payment in gold, the gold standard would quickly break down again even more completely. If the United States, for instance, insists on the payment of war debts, and if these can only be paid in gold, what folly it is to talk of the general resumption of the gold standard.

It is true that the surpluses of the highly protectionist creditor countries will certainly grow less. But whatever they may be they must be disposed of in some other way than by the constant attraction of gold. If these countries do not want to buy goods or to make foreign loans, the last resort is that the debtor countries must have the pleasure of receiving a larger proportion of their citizens as paying guests.

In the best of circumstances it is unlikely that a commodity required by nearly all countries, and yet so predominantly held by two only, will be stable in value in the next few years. It is impossible to foresee how the trend of the last two decades is to be reversed and gold to become distributed more reasonably among the countries wishing to adhere to the gold standard. It is certain that big economic changes will be required and that in the course of them gold may fluctuate greatly in value. There are therefore advantages in this country not tying itself irrevocably to gold at present. Who can say, for instance, what may be the future in the next few years in that vast and speculative country, the United States? A country which can create and in a year or two uncreate thousands of millions of dollars of credit by means of brokers' loans, and which carries out these operations through the agency of 25,000 banks, may be an attractive, but is certainly a dangerous, partner.

Another great obstacle to the normal working of the

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gold standard is the huge amount of liquid capital represented by foreign claims held in the form of short term deposits or saleable securities, which can be shifted from one country to another at a moment's notice. These short term funds, estimated by the Bank for International Settlements at perhaps \$10,000,000,000, are in great part an indication of the general lack of confidence. They represent a real problem. When, owing to some sudden panic as regards the soundness of any given financial centre, these great blocks of liquid capital begin, so to speak, to "throw their weight about," the result can, as we know to our cost, be disastrous. If we were to return to the gold standard, very large foreign deposits might be expected to be built up in London, and since complete confidence in us will take many years to restore, they might be quickly withdrawn if there were any signs of strain. For in order to be the financial centre of the world we require a considerable surplus on our balance of payments, *i.e.*, considerable amounts of capital to lend abroad, and the power pretty freely to adjust our interest rates and price level so as to retain our competitive position. At present we have neither. Twenty years ago we were by far the greatest creditor nation in the world; to-day, without taking account of any foreign lending, we are probably short by about £65,000,000 to £75,000,000 a year.

But while it would be dangerous to return at once to the gold standard, there are equal dangers in floating loose. We must not get into the habit of adjusting our position to the outside world by the depreciation of our exchange. That is indeed what many countries, particularly some South American republics, have done for many years. Since 1820, for instance, the sterling value of the Brazilian milreis has dropped by irregular stages from 5s. to under 6d. We can hardly wish the pound sterling to have the same history. It would be a suicidal procedure, moreover, in view of our huge sterling assets abroad, which would diminish in value

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with each drop in sterling. Our exports must be maintained, not by temporary "cocktails" administered by a fall in the exchange, but by a definite power to compete on level terms in the world's markets. There is a very widespread feeling that somehow our abandonment of the gold standard has freed us from the disagreeable discipline which is required to maintain the stability of a currency. That is a dangerous delusion. It is true we are freed from the necessity of following the vagaries of gold, if it displays any. But that is all. It is still as necessary as ever for our own health and the world at large that sterling should be a stable standard of value and, if an adjustment of our internal costs is necessary to secure this result, that must be made, difficult as from the rigidity of our conditions it may be, and made otherwise than by a depreciation of our currency. At present we are inclined to evade this painful necessity by using up all and more than all our invisible resources for living expenses. But this process must have an end. Recently, it is true, our exchange has been affected far more by capital movements than by failure to adjust what may be called our long-term competitive situation. And at the moment the Government's conversion policy and the necessity of very cheap money stand in the way of the Bank Rate being effectively used to stiffen up our exchange. But the movement of capital from London is influenced not only by interest rates, but also by foreign opinion as to our underlying strength and our power to adjust our internal conditions, if need be.

Profound changes will indeed gradually work themselves out in our whole situation relative to that of other countries, unless we are able to maintain our costs, whether in industry or in shipping or in commerce, on a truly competitive basis.

As a nation which depends more than any other on international trade in the widest sense, it is greatly to our interest to see the most stable international monetary conditions restored. Therefore, while we should not

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return to the gold standard until the way is much clearer, we must at least play our part in preventing a depreciation of our own currency—and unless and until gold shows an instability greater than we can stand, in maintaining the pound substantially in a stable relation with the gold currencies. When it will be possible to return to gold, it is too early to say. It depends not only on a general understanding between the governments and central banks of the greater countries as to the working of the system, but still more on other fundamental adjustments, which governments by themselves cannot make. Raw material and food prices must rise relatively to the prices of finished articles ; creditor countries must be more willing buyers of goods from debtor countries ; international indebtedness must be brought, either by a general rise of prices or by other adjustments, to bearable proportions. But it is certainly in our best interests to work towards rather than away from a common international standard.

There is no opportunity to discuss more fully the great importance to the world of the re-establishment as widely as possible of such a standard, or the probable attitude of other non gold-standard countries towards this question. The immediate future will in any case be very largely determined by the policy of this country. That the pound sterling should continue to be classed among the world's widely fluctuating currencies will be a disaster not only to our own interests but to international credit and trade in general. It is for this reason that a strong government and a united and steadfast attitude on the part of all sections of the population are of the utmost importance. Our national crisis is by no means over. A great financial centre such as we are is peculiarly open to attack. In a world bereft of confidence its strength becomes weakness. Its only defence is to exhibit to the world an unshaken national unity.

OTTAWA AND THE TRADE AGREEMENTS

THE Ottawa Conference was primarily a business meeting for the negotiation of a series of preferential trade agreements between the nations of the British Commonwealth, and its success or failure is to be measured according as the agreements arrived at are or are not good business agreements—that is to say, bargains by which both parties benefit, not bargains under which a gain to one party is offset by a loss to the other.

High hopes have certainly been entertained that the Conference might result in the participating nations being drawn more closely together in sentiment and by a common self interest than they were before, just as individuals who have satisfactory business relations with one another are more to one another than strangers; but from this point of view again the merits of the Ottawa agreements from the economic or business point of view are the criterion of the success of the Conference. No one in these days could have expected it to result in the closer integration of the Empire in the directly political or constitutional sphere. Ever since the Dominions won their earliest self-governing rights and particularly during and since the war, the powerful urge of national independence has driven the Commonwealth along the path of political detachment. With the grant of full nationhood to those Dominions which choose to adopt it in the Statute of Westminster legally rounding out what Professor Elliott calls the

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"Theological subtlety" of the Balfour Memorandum,* that phase necessarily came to an end. The road stopped at a precipice, and there remained only for Mr. de Valera to dance precariously on its edge, trusting to the angels of Hibernian patriotism to bear him up. Now when others than suicides come upon precipices they either sit down and admire the view or go back along the path that brought them thither, or, turning to right or left, seek some other way of continuing their journey. Nations never stand still, nor do they commonly retrace their steps once painfully taken. Hence the time and circumstances were ripe for a new line of progress for the British Commonwealth. Political devolution was over, integration but a dream; the hope lay in co-operation, and particularly in economic co-operation, since economic problems cried loudest for solution.

What of this hope? We must examine carefully what happened at Ottawa before we can answer that question, but right at the start it can be truthfully claimed that the desire of the Commonwealth for co-operation was as strong as even the most optimistic dared hope. In the midst of argument and dispute, sometimes over details and sometimes over the whole economic future of the Commonwealth, the statesmen assembled in conference realised that they dared not publicly fail. The peoples whom they represented wanted agreements, and agreements they have been given. Some would say that it were better to have exposed the hollowness of some of the apparent agreement, to have risked a betrayal of partial failure in order that the full truth about imperial economic co-operation should not be concealed from the citizens of the Commonwealth. That is a matter which each must determine for himself, but the intensity of the desire that the Conference should succeed

* "Theology," Professor Elliott explains, "is characteristically a stubborn attempt to explain an irrational or at least a superrational order in terms of reason, with the aid of appropriate texts." *The New British Empire*, by W. Y. Elliott (McGraw-Hill, London and New York) p. 7.

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is itself encouraging. Furthermore, there was another and wider reason than the will of British electorates why the failure of the Conference could scarcely be contemplated. "If we, the British peoples," as Mr. Bruce said in his opening speech to the Conference, "united by ties of kinship and common interest, cannot in this hour of crisis act together in a spirit of co-operation and goodwill, what hope is there of international action between nations divided in sympathy and outlook and in many cases the inheritors of centuries of prejudice and hostility?"

I. THE COURSE OF THE CONFERENCE

THEREFORE the desire for an agreement was all the stronger. The delegates realised that it would not only mean co-operation between the peoples of the Empire but would also be an example, possibly a fresh inspiration, to the peoples of the world struggling to discover means of tackling the most severe economic crisis in history, and shortly to meet in world conference for that purpose. A failure of the British nations to agree would be a severe shock. That there were difficulties was recognised, and the very insistence on the unthinkability of failure struck a note of apprehension at the opening session. One had a feeling that dogged determination would be required to carry the Conference through to a satisfactory conclusion.

And—a description of the proceedings to be of any use to students of imperial problems must be candid—the Conference was often in trouble. The delegations spoke their minds to one another, explaining their respective difficulties in forceful language and airing freely such complaints as they had against each other. Sometimes the atmosphere was strained, sometimes the negotiations seemed on the brink of failure. But the Conference having, despite all troubles, succeeded in reaching a series of agreements, the disputations at Ottawa have probably been all to the good. There was plain speaking between the accredited represent-

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atives of the sister States of the Commonwealth—yet the Empire survives, none the weaker and probably all the stronger for it. Moreover, the Conference was a liberal education for many people who thought that it would be a simple matter to reach agreement on imperial economic policy, that the Governments concerned would quickly see eye to eye, and that the Dominions could and would easily grant to Great Britain the concessions that she desired. Appreciation of the real problems of economic co-operation between one group of nations is juster since the Conference than it was before.

The main difficulty was of a double nature. In the first place it was far less simple to reach agreement to-day than it would have been thirty years ago. Then to a large extent the production of the Dominions was complementary to that of Great Britain; now they have developed their own secondary industries and in certain fields there is considerable competition between Dominion and United Kingdom industries. Secondly, apart from, and to some extent owing to, the actual clash of economic interests, there is a clash of political thought between Great Britain and at any rate the two wealthiest Dominions, Canada and Australia. Great Britain is fundamentally a free trade country. Situated at the centre of world trade, and dependent for her life and prosperity on international trade she has seen, in the last two years especially, the damage wrought by trade barriers such as tariffs. Her new tariff policy has only been forced upon her in self-defence in a tariff-ridden world, and one of the purposes of that policy is that the tariff should be used as a bargaining counter with which to bring about reductions in world tariffs generally. In the United Kingdom a tariff is not liked for its own sake. The Dominions, on the other hand, have had a different experience, which has made them protectionist. For them a tariff has been a useful wall behind which they have been able to build up industry, and they are inclined to like it for its own sake.

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Mr. Baldwin stated at the outset the objective which the United Kingdom delegation hoped the Conference would set before itself.

What then (he asked) should be the first aim of this Conference? It should be to clear out the channels of trade among ourselves. . . .

Certainly he and his colleagues were anxious for an extension of inter-imperial trade, and believed that it should be achieved by a development of the system of imperial preference. But tariff preferences could be increased in either of two ways, by raising the rates of duty against foreign imports or by reducing the rates against British imports. The United Kingdom delegation declared strongly for the latter method, and were at pains to point out that the interests of the Dominions as well as those of the United Kingdom lay in freeing world trade as far as possible from its present barriers. Mr. Baldwin reminded the Conference that

The countries of the Commonwealth depend upon world prosperity both directly when they are selling commodities for which a world market is indispensable to them, and also indirectly when they sell to the United Kingdom, because the purchasing power of the United Kingdom depends upon her ability to sell in a world market, and that in turn depends upon the ability of the world to buy.

The United Kingdom delegation, in a word, came anxious to establish freer trade within the Empire. They desired to secure as much reduction as possible in the Dominion preferential tariff, to avoid as far as possible increases in Dominion duties against the foreigner; and on their side they wished to limit to the minimum the increases of duties that would be required against foreign imports into the United Kingdom relying on a guarantee of continued free entry for Dominion imports as the most valuable concession that they could make.

The Dominion statesmen showed appreciation of the importance of world markets, and were emphatic that the idea of a self-sufficing Empire, economically independent of

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the rest of the world, was unthinkable. Nevertheless, they appeared to believe that self-sufficiency could be more nearly attained than their colleagues from the United Kingdom did. Different reasons actuated them—for instance, a belief in high protection, in the case of Canada, and a dependence upon customs duties for revenue in the case of Newfoundland; but in varying degree the object of the Dominions was, generally speaking, the opposite of that which their colleagues from Great Britain cherished; they hoped to gain the maximum possible advantage for their imports into the United Kingdom by the imposition of tariffs on the foreigner, whilst they themselves made the minimum reductions possible in the tariffs which protected their own industries against British, as well as foreign, competition. They sincerely sought to increase the British preference in their own markets, but they desired to do it rather by increases in their general or intermediate rates of duty than by directly lowering their preferential rates.

But the whole Conference was united in the main object—the expansion of imperial trade by the development of imperial preference—and although, when the Conference opened, there was not quite so much accord as to ways and means, in the course of four weeks of extremely hard work and close negotiation divisions of opinion were narrowed, compromise where necessary was reached, and a series of agreements—the merits of which are discussed in a later section—was concluded.

After the first plenary session opened by the Governor-General, at which general statements were made on behalf of each delegation, the full Conference did not meet again until the closing day, when the agreements were formally signed. The detailed work was carried on in the meantime mainly by five committees, each with appropriate sub-committees. Committee No. 1 concerned itself with the promotion of trade within the Empire, No. 2 discussed questions of customs administration, No. 3 commercial

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relations with foreign Powers, No. 4 monetary and financial policy, and No. 5 methods of economic co-operation within the Empire. The work of the Committees was assisted from time to time by meetings of the heads of delegations.

The tasks of these Committees were naturally of varying importance. No. 2 was able to recommend principles which would enable the administration of customs to be carried on in practice in such a way as not to vitiate preferences after they had been granted. No. 3 also reached agreement on general principles calculated to bring the system of most favoured nation agreements with foreign countries into harmony with the system of preference between Empire countries. No. 4 had some exceedingly interesting discussions, but carefully avoided making any statements of policy likely to prejudice the wider discussions that are to take place at the World Economic Conference. No. 5 produced recommendations with regard to industrial standardisation and voluntary "rationalisation" between industries in different parts of the Empire, and it proposed the establishment of a special committee to examine the question of how the work of existing official imperial bodies in the economic and scientific sphere should be co-ordinated.

Committee No. 1 however was, at any rate nominally, responsible for the most important work of the Conference. It was invited to consider the means of promoting trade within the Empire. Its objective was the primary aim of the whole Conference, the purpose for which it had been called together. This was the object of the trade agreements that the delegations had come to Ottawa to negotiate. So in a sense No. 1 Committee *was* the Conference. It considered certain questions allied to the proposed trade agreements, such as that of Empire content, the "exchange dumping" duties which have been imposed, since Great Britain went off the gold standard, against United Kingdom imports into certain Dominions, and the problem of Russian and other State "dumping," which might render

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preferences granted under the trade agreements ineffective. But although the Committee was nominally responsible for negotiating the all-important trade agreements, its meetings did not, in fact, prove to be the best way of actually attaining agreement. In the case of the Canadian and United Kingdom delegations, for instance, informal and private conversations among themselves were found, in actual practice, a far more effective method—at any rate until they were on the point of agreement—than formal meetings round a table in a large committee room, with a chairman presiding, a secretary taking minutes and representatives of all the other delegations listening-in. The same was true of negotiations between the United Kingdom Ministers and the various Dominion delegations. And so the Committee itself stood adjourned during practically the whole of the middle and latter part of the Conference, whilst these private conversations were proceeding, meeting again at the end simply to give formal approval to the agreements that had been reached, and to pass them on for the approval of the Conference as a whole.

But the Committee nevertheless made most valuable recommendations as to the best way of tackling the complicated problems and network of negotiations involved in the creation of a balanced system of reciprocal preferences for Dominion goods entering the United Kingdom market, and United Kingdom goods entering the Dominion markets. Some Dominions were interested in the same kinds of imports. A number of them, for example, were concerned with the importation into Great Britain of butter and other dairy produce. It was decided at an early stage that the United Kingdom could not treat butter from different Dominions in different ways—the same treatment must be meted out to all butter coming from any Empire source. Otherwise there would be invidious distinctions; misunderstanding and bad feeling might easily arise between Dominions; there would certainly be unnecessary complications for the United Kingdom customs authorities.

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From every point of view it was desirable that similar imports from different Dominions should receive similar treatment. The negotiations would have been unnecessarily complicated had New Zealand put forward one proposal with regard to Great Britain's treatment of butter imports and Australia another. Imagine the effect of diverse proposals to the United Kingdom delegation not only about butter, but also about other dairy produce, and fruits, metals and minerals and other commodities in which more than one Dominion is interested. So the Committee recommended that the group of Dominions interested in dairy produce should first meet together and agree upon a joint specific request to be put forward. The group of Dominions interested in fruit were to do the same, and so on; and as each group reached agreement its proposals were placed before the United Kingdom delegation.

At the same time the Committee recommended a series of bilateral conversations between the United Kingdom delegation and each of the Dominion delegations with reference to the United Kingdom requirements in Dominion markets. Thus two sets of conversations—one with regard to the preferences that the Dominions desired in the United Kingdom market, the other with regard to the preferences desired by the United Kingdom in Dominion markets—proceeded at one and the same time. At a later stage they were integrated.

It should be pointed out that if the delegations had waited until they met at Ottawa to examine all the details involved, the Conference might still be sitting. But in actual fact the negotiations were enormously helped by preliminary communications which had been going on between the different Governments for some months before the Conference met. Early in the year, for instance, the United Kingdom Government sent to each Dominion Government a schedule containing a tentative list of requests for concessions to United Kingdom imports

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which the United Kingdom delegation proposed to put forward; and it invited each Dominion Government to send a similar list of what it intended to ask of the United Kingdom. A preliminary exchange of views then took place on these mutual requests, so that in some cases the work was in a fairly advanced stage before the delegations met at Ottawa at all. In other cases, where the preliminary examination had not gone very far, the work at Ottawa was exceedingly difficult owing to the shortness of the time in which it had to be done. Such preparatory work is of the utmost importance, and should be a prelude to any future Imperial Conferences at which economic questions are to be examined in detail.

By the somewhat complicated but logical process described above a series of important agreements between the United Kingdom and each Dominion—except the Irish Free State, between whom and the United Kingdom no negotiations took place—was gradually, and occasionally painfully, evolved. The three most troublesome of the larger questions proved to be how to grant a preference to Dominion meat imports into the United Kingdom, how to guard against preferences being rendered ineffective by Russian or other State “dumping,” and how to increase the British preferences in the Canadian tariff. The first was settled by an agreement upon the principles, and some of the details, of a quota system of import regulation. The second was solved with the aid of the celebrated Article 21* of the United Kingdom-Canada agreement. The third was the most stubbornly contested issue of all. It proved a very difficult task to get any reduction in the Canadian tariff. The Canadian delegation was in a more difficult position than any other, for the Conference was held in its own capital, which was easily accessible to lobbyists. Ottawa was filled with manufacturers, the

* Article 21 provides for the contingency of foreign State action frustrating a preference.

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spoilt children of the Canadian protective system, determined not to give up their privileges against United Kingdom imports. Discussion continued right through the Conference between the United Kingdom delegation, the Canadian delegation and the Canadian manufacturing interests working behind the scenes. The issue was in doubt till the very end. Finally it was settled by the granting of considerable concessions by the Canadian Government, in return for those granted by the United Kingdom Government. A long list of immediate changes in the Canadian tariff schedule was agreed upon, and the Canadian Government also undertook to establish the tariff board whose functions are discussed later.

Some of the general effects of the agreements that were reached are discussed in the next section. Their main feature is clear. The first care of each Government is recognised to be to look after the industries or agriculture upon which its population depends, and aiding those of another part of the Empire is only a secondary consideration. Nevertheless preference, except in exceptional cases, is to be given, by the Dominions to United Kingdom manufactures, and by the United Kingdom to Dominion agricultural produce, even when competition with their own industries or agriculture is involved. The agreements establish the principle that there is to be fair competition throughout the Empire. They recognise that the prosperity of each part will help the prosperity of the whole. At the same time there is no attempt to make Imperial preference the means of establishing a self-sufficient Empire or to damage trade relations with the rest of the world.

II. THE AGREEMENTS

THE agreements have been variously criticised according to the fiscal views of the commentator. For our own part, in applying our criterion of what good business agreements should be, the benefit of both parties, we should

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ask ourselves to what extent do they mean a stimulation, not a mere diversion—which inevitably implies a restriction—of trade, and to what extent do they further or handicap the liberation of world trade by action outside the Commonwealth.

The first question is tantamount to asking how far the agreements entail a net reduction of tariffs. Since the Import Duties Act already gave free entry to Dominion products, the guarantee that such free entry would be preserved was the only concession open for Great Britain to grant that did not imply some increase of restriction on trade. Beyond that, we have guaranteed the permanence of duties of at least 10 per cent. *ad valorem* on an important list of commodities, including timber, fish, leather, lead and zinc. Besides this, we have promised to impose new or increased duties on a further list of commodities, among which wheat, butter and cheese, fruit, eggs, maize, rice, and copper are the most notable. At the same time it must be remembered that the exemptions granted to the Dominions cover a very considerable volume of trade, and but for the agreements these exemptions would have all lapsed on November 15. Tariffs of some kind might then have resulted for these imports too. The effects of the concessions granted by the Dominions to the United Kingdom will be discussed later on.

How far the interests of the consumer will be safeguarded by the maintenance of free entry into the United Kingdom for Empire products in the above-mentioned classes is a matter on which opinions must inevitably differ. The stern free trader will regard it as at least probable that the new duties will increase the cost of living with consequent detriment to the British export trade, and will find it significant that it was thought necessary to demand from the Dominions a guarantee that, as regards wheat, copper, lead and zinc, supplies would be available in the United Kingdom at world prices, and in quantities sufficient to supply our requirements. From this point of view, the

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wheat preference is a remarkable item ; as Empire wheat producers are bound to sell some of their crop outside the Empire, they cannot gain any larger market, and they are prevented by the guarantee (as they would in any case have been prevented by economic circumstances, unless they established a monopoly) from obtaining any higher price. Hence the conclusion might be said to follow that Great Britain has granted a concession for the sake not of Dominion farmers but of the political prestige of Dominion Governments. The advocates of the agreements, in reply to what is said above, point out that the effect of the Import Duties Act has not yet been to raise the cost of living for the consumer in this country, or of export from it, and that certainly in these days of glut no such ill effects are to be apprehended from the new duties.

This brings us to the question of the quota. The decision on bacon and ham was reserved until the Pig Industry Commission had reported,* though Canada was promised a large untaxed quota,† while the principles of a scheme for the quantitative regulation of the importation of mutton, lamb and beef were agreed upon with the Dominions affected, who for their part undertook to control their own export of meat. This is not the place to discuss the relative merits of quantitative regulation and direct taxes on imports. The meat quota has been criticised as a food tax in disguise, for if it brings no revenue into the United Kingdom Treasury, it will at least raise the price of a staple food for the British consumer. Its whole object is, however, admittedly to increase the return to the Dominion and home producer by raising the price, and Mr. Chamberlain has explained to the House of Commons why it was preferred to a direct duty.

The conclusion is obvious (he said). What you have to do if you are to restore the prices which have been ruined by this excessive increase in importation into a market of which the capacity was not

* The Commission reported on October 25.

† Australia and New Zealand were also to benefit from any bacon quota scheme.

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increasing is to regulate the supply of imports until you reach some reasonable relation between what the market can take and what is going to be offered to it. A duty on foreign meat would be useless for this purpose, in the first place, because the foreigner would pay the duty and send in the meat just the same, and, in the second place, because the excess was not coming from the foreigner. The excess was coming from the Dominions.

The event will show whether the experiment is justified.*

So far the general result seems to be that, while the concessions made by Great Britain fell far short of what the Dominion Governments originally proposed, they were substantial, and required large reductions of Dominion tariffs if the net results were not to be a mere enhancement of trade barriers.

These reductions in their turn were certainly also substantial, though space does not allow of a detailed review of them here. The concessions† to the United Kingdom, in themselves considerable, are given partly by increasing the tariff against the foreigner, partly by a direct reduction in the tariff against British goods. Thus, South Africa has on the balance increased her preference to us by raising her tariff against foreign goods, but in Canada a total of 223 concessions includes 132 items, representing \$45.7 million worth of British trade, in which the duty against our goods is reduced. There will be no accompanying increase, either in the intermediate or in the general tariff in 81 of these items, and in between 70 and 80 of them, representing \$8.3 million of British trade, our imports will be admitted free; in two further cases all the rates, and in another the British preferential and the intermediate rates, have been lowered. The rest of the 223 concessions have been effected simply by raising

* Regulation 130 of the "Regulations for the Application of the Tariff" Act, 1923, try to achieve a general reduction of the tariff on foreign goods. The percentage reduction fixed for foreign meat will, unless otherwise agreed, continue in force. The restrictions can be removed whenever a shortage due to them is in existence.

† At Delhi the agreement with India has been referred to a Committee of the Legislative Assembly. For further details of the Canadian concessions see the Appendix.

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the tariff against the foreigner, and in one case the British preferential rate as well.

In New Zealand the changes consist entirely of reductions in the duties on British goods, and although in Australia the new preference is, for the moment, being effected by raising the duties on foreign goods, Mr. Bruce has made it clear that "this was a temporary necessity," since the Australian electors had been given a pledge that their Government would reduce no tariff without a recommendation from the Tariff Board, which is now, we understand, engaged on the work of revision and has already commenced making reductions. In both Australia and New Zealand various prohibitions, surcharges, primage duties and surtaxes against United Kingdom goods have been done away with since the Conference, and in Canada an enactment permitting arbitrary valuation, which led to increased duties and uncertainty, is being abolished. The administrative reforms are dealt with in the succeeding paragraphs.

It is, of course, possible to look askance at what the Dominions have conceded, and to contend, as is done, for instance, in the *Economist* of October 15, that many of the British goods placed on the Canadian free list are such as will still be unable to compete with similar goods from the United States, notably motor cars, which, notwithstanding our own tariff and currency depreciation, are still sold in the British market; or that even after the promised reduction in favour of British, and increases against foreign, goods have been made, the duties which will remain on British imports will still be prohibitively high, and will exclude them from competition with articles of Canadian manufacture. Experience must decide what measure of truth there is in these criticisms; but it appears to be clear that some important British industries, notably the iron and steel and chemical industries, stand to gain materially—in the case of the iron and steel industry, largely as the result of their own negotiations—from the concessions

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offered, and the balance of British opinion would, we believe, support the view that the Dominions are giving a fair *quid pro quo* for the advantages awarded to them. It will also share the hope of the United Kingdom delegates that the concessions obtained will themselves prove to be only a beginning, and that the new principles which are to govern tariff administration in the Dominions, and the competition of British and Dominion industries will, as time goes on, result in still further improvement.

For apart from the detailed schedules of tariff changes, Canada and Australia and New Zealand have entered into a wider commitment. They have undertaken that protection by tariffs shall be afforded against United Kingdom products only to those industries which are reasonably assured of sound opportunities for success, that protective duties shall not, except in the case of young industries needing special shelter, exceed such a level as will give United Kingdom producers full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production, and that non-political tariff boards, before which United Kingdom producers shall be entitled to be heard, will review the whole range of protective duties and make recommendations to the Dominion legislatures in accordance with the principles above set forth. Here again there is plenty of opportunity for the critic who may choose to point out that in the interpretation of such phrases as "full opportunity of reasonable competition," "economic and efficient production," or "reasonably assured of sound opportunities for success," the widest latitude is possible, that much will depend on the composition and operation of the tariff boards which must be appointed by the Dominion Government concerned; that economy and efficiency become quite arbitrary conceptions as soon as the test of international competition is relaxed; that the principle of equalisation of costs through tariffs, which implies that the more costly a local industry, the stronger its claim to a tariff, has in the United States been

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made the excuse for one of the highest tariffs in the world ; and that formula expressed in general terms may lead to disputes over questions of interpretation.

The answer must be that responsible Governments like those the Dominions, in entering into important agreements with the United Kingdom, the whole object of which is to increase the volume of inter-imperial trade, do not lightly put their hands to pledges involving far-reaching changes of policy ; that there must be no suspicion of bad faith, and that Governments as honourable as our own can be relied upon to interpret their pledges honestly and to carry them out in the spirit as well as in the letter.*

Nor will the tariff boards in the Dominions resemble that of the United States, which has no concern outside the interests of its own people. The Dominion boards must also under the agreements take into account considerations which affect the United Kingdom producer.

A fair conclusion appears to be that, on balance, the Ottawa agreements will represent a net reduction of tariffs, should lead to a stimulation of trade, and thus in themselves are, upon the whole, good bargains ; and this conclusion is strengthened by the fact that, while in Canada they are criticised by the "lower tariff" Opposition led by Mr. Mackenzie King, as not going far enough in the direction of reduction of duties,† in Australia, they are attacked by Mr. Scullin as a betrayal of the Labour doctrine of high protection. Mr. Fenton has resigned from the Government because he thinks the agreement a threat to the system of high tariffs. But possibly as good a judge as anyone is Mr. Daffoe.

For two years (says the *Manitoba Free Press* of October 13) Canadians have suffered from the exactions and oppressions of a

* See Mr. Chamberlain's reply on this point in the House of Commons to an interruption by Mr. Lansbury, October 18. House of Commons Debates.

† See *The Times*, November 1, 1932.

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iff framed in a spirit of protection gone mad. Thanks to the istence of the British delegation, instead of being fobbed off h meaningless preferences based upon increased tariffs, there in the schedules submitted considerable remissions of taxation. is is a definite step in the right direction. . . . The crumbling the tariff wall in Canada has begun.

Our second question, which followed that to which we ve just offered an answer, was to what extent the agree- nts further or handicap the liberation of world trade action outside the Commonwealth. Here it is im- rtant to have an outside opinion, and Mr. Chamberlain s able to quote very effectively in the House of Commons, October 18, the opinion of a great American industrialist, r. Charles M. Schwab.

The Ottawa agreements (said Mr. Schwab) are going to hit erica. They are going to hit my own concerns, especially in the nadian markets. We must take a wide view. If the Britishpire prospers under these agreements, America and all the rest the world must prosper in the long run.

Again, we have the comment of the American Am- ssador:

The trade which the United States might lose for the time being the result of Ottawa (said Mr. Mellon) will not in the end be worth ily so much to them as a more prosperous Great Britain as a omer.

We ourselves have heard from another foreign source at traders and economists abroad regard it as of good gury for Europe, struggling as she now is in a network restrictions, that the British nations should have been le to set an example of economic collaboration and freer de among themselves, for what one set of nations has ne, others, if well disposed and anxious to trade with e another, may do.

The Ottawa agreements then bid fair to be a useful ject-lesson to the world outside; nor, although they id us to impose duties on a number of foreign imports, : these so heavy in themselves, nor do they cover so

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de a range as to make it impossible for us, consistently th what has been done at Ottawa, to negotiate further ide agreements with foreign countries. Indeed Sir John mon has been able to assure the House of Commons at, whereas, while Great Britain was standing upon an solute free trade basis, all efforts to bring about a tariff ace with foreign countries failed,

ice the day when the Import Duties Act was on the scene, and ain now that the Ottawa agreements had been produced, they ic Foreign Office) were constantly invaded to a quite unusual tent by the representatives of different countries who wanted to gotiate. Presumably Norway, Sweden, Denmark and Argentina ow their business.

he hope seems justified that a breach in the tariff walls lected in the British Commonwealth may lead to their rther crumbling not only in Canada but also in the out- le world.

It may not be out of place to add a word on the political pect of this matter. The retirement from the National ibinet of Sir Herbert Samuel and his Liberal (as dis- igned from Liberal National) colleagues was probably ways inevitable, and its effect on the Government's isition is referred to elsewhere.* Whatever the loss, the unanimity of the delegation under the pressure of "hard rgaining" is now reflected in the British Government. On e other hand, the Opposition in Parliament would reject e agreements with no less unanimity; and both in Canada id in Australia and New Zealand the parliamentary Opp- tions are all arrayed against the agreements, although i diametrically different grounds. That it is regrettable at arrangements which affect so nearly the mutual re- tions of the nations of the Commonwealth should become atters of acute local controversy on party lines is not be denied; but we may cherish the hope that if, as it legitimate to expect, the agreements are found to work

* See page 162.

THE LYTTON REPORT

NO more important document has ever come under the consideration of the Council of the League of Nations than the Report of the Commission of Enquiry appointed, on an appeal by the Chinese Government, "to study on the spot and to report to the Council on any circumstance which, affecting international relations, threatens to disturb peace between China and Japan, or the good understanding between them on which peace depends." The importance of the Report is due, on the face of it, to the facts that many involved questions are in dispute between a first-class Power on the one side and a vast but weak country on the other, that the dispute has already led to hostilities covering a wide area and causing much bloodshed, and that while the dispute continues incalculable economic loss is inevitable.

Many—particularly in smaller nations, who perhaps have had less opportunity of apprehending all the circumstances—would add to the importance of the issue by regarding this as a test case—a case which will serve as a precedent for the League in deciding what they should do when a stronger Power takes the law into its own hands when dealing with a weaker one. In fact, the prospect that any other case will arise which is truly analogous is extremely remote. As the Commission say, there are in this case "many features without an exact parallel in other parts of the world." The multiplicity of these features has added to the difficulty of the Commission's investigation, it must add to our difficulty in comprehending why they have been led to certain conclusions, but it detracts from the importance of the case as a test of what is applicable in cases which may arise elsewhere. Nevertheless, whether immediate action on the lines which the Commission recommend proves possible or whether unhappily it does not, it is essential that we should correctly appreciate the nature of the

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peculiar features to which the Commission refer and which they have endeavoured to explain. In the first event it will enable us to see the wisdom of the Commission's recommendations, in the second it will enable us to decide what alternative course of action is immediately open to us.

Paradoxically, the case is peculiar because China is involved, and China is not as other countries, and because a region is involved which is part of China but is not as other parts of China. What, then, are the features that distinguish China from other countries? What are the features that distinguish China's Three Eastern Provinces from other parts of China?

I. CHINA: AN UNPARALLELED SITUATION

CHINA is heir to a social and ethical tradition sublimated in the precepts of the sages, expounded in the writings of the commentators of a hundred generations. Out of this tradition there grew a system of government which drew its vital energy from a congenial soil. Under the supreme authority of the Son of Heaven, but free from any meticulous control, a *corps d'élite*, selected from among the people by examination in classical scholarship, conducted the business of government. In his administration the wise and good mandarin sought to interpret classical precept, to apply, in varying circumstances, traditional principles. His acts were not governed, and nobody wanted them to be governed, by the precision of law or of arithmetic. In the matter of taxes and fees, for instance, he took what he thought right in the circumstances, he passed to higher authority what he judged adequate in the circumstances. In China an agreement—be it written or be it verbal—is binding and, ordinarily, it is scrupulously honoured, so long as the circumstances remain what they were, or were expected to be, at the time when the agreement was concluded. It is not binding and, ordinarily, it is not honoured for one moment longer. Negotiation and com-

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promise become necessary. Law and government edict have little more validity than a private bargain, unless established by the sanction of tradition.

This despotism, tempered by respect for a tradition common to governors and to governed, differed from other despotisms in this, that it provided for an official Opposition. No office in the State was of higher dignity, no office called for the exercise of greater wisdom or of greater courage than that of censor. But even censors are neither all-present nor all-knowing, while often they were neither wise nor brave. Chinese despotism was consequently like other despotisms in this, that it gave rise to an unofficial Opposition to the tyrannical exercise of power. Such unofficial opposition might mean a sudden end for the tyrant, it inevitably meant outlawry to the agents of the Opposition if not to its instigators. Consequently, banditry has always been endemic in China, and its amount has varied more or less directly with the demerit of the administration—though with a certain time-lag.

The attitude of this society, steeped in its ancient tradition, to the outer barbarian was one of contemptuous pity. This was not due to any conviction that he was misgoverned or to any certainty that he was uncultured. It was due to the belief that, having been denied all knowledge of the wisdom of the sages, he did not know what was really worth cultivating—he could not distinguish weeds from flowers.

It has often been asserted that it was inherently impossible that the knowledge and ideals of Christian countries should impinge upon this ancient culture without a concussion so violent as to cause general confusion and destruction of much that was worth retaining. In fact, the first close and continuous contact of Europeans with Chinese society produced no such untoward result. The first missionaries to reside in China, members of the Society of Jesus, brought with them a taste for scholarship. They appeared anxious to make good the shortcomings of their early training by acquiring some knowledge of the Chinese

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classics. If, with due humility, they suggested that certain exotic flowers would bear transplanting to Chinese soil and adorn the Chinese garden, they did not condemn the native blooms as weeds, much less try ruthlessly to uproot them.

The confusion and the destruction which have come about must be attributed to later contacts with the products of Western civilisation. If evil consequences have come from the contemptuous indifference of the foreign merchant to the Celestial garden and all that is in it, still more serious have been the consequences, direct and indirect, of the facile optimism displayed by certain missionaries, educationists and others. The hope that the good seed was about to spring up both quickly and abundantly led to the assumption that it mattered little if much that the Chinese revered was trampled under foot. 'Tis true that many of these men have now revised their opinions. 'Tis true that other equally zealous workers never entertained these opinions. It is undeniable, however, that many American and British missionaries and educationists were prompted by their confidence in a regenerating acceptance of Western light and learning to broadcast opinions in regard to matters outside their immediate province. These men, with more justice than wisdom, condemned, as the bearer of evil fruit, the tree of government under whose shade the people rested. They, and those whom they had taught, cried out that it should be hewn down—destroyed root and branch—that to replace it they had the seeds of a magic mango-tree concealed in a carpet-bag. And what results of the intrusion of this West has the present century brought ?

In 1900 a popular uprising was directed mainly against the new teaching and its exponents. This uprising was secretly encouraged by the vigorous old lady who controlled her country's policy, and who was more incensed by foreign greed, recently displayed in the misappropriation of Chinese territory, than by the foreign teaching which she despised. That was China's last active and overt resistance to the onslaught of the new ideas. Thereafter, events came fast.

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In 1904, this same old lady, the Empress Dowager, decided to abolish the system of selection by classical examination. It was one of the last things she did. No one knows what she would have put in its place had she lived to see her plans executed. In 1911 the Manchu dynasty was overthrown and China was declared a republic. The magic mango tree was about to grow before a wondering people's eyes. The wondering people, vaguely conscious that the foundations of their society had been shaken, that the basis of authority had been destroyed, trembled, but did not always obey. Some degree of coercion was necessary. Yuan Shih-kai had ready to his hand men able to exert it—not scholars of the mild, classical school, but men, presumably of iron, trained in the new military academies, whose graduates were to render China capable of withstanding the Japanese, the Russians—indeed, the four corners of the world in arms. These men, in all China but the south, became military governors of provinces—the tuchuns of whom we hear so much. As might be expected, the office of civil governor rapidly became a sinecure.

But, though the sword might thus seem mightier than the pen, it was too clumsy an instrument for dealing with the minutiae of government business. Assistants were required, trained to the use of the pen and of the tongue. With many officials of the old régime retiring, disgusted or discouraged, it was inevitable that those assistants should be selected mainly from the ranks of the returned students, or of the graduates of missionary educational institutions in China. Selection, moreover, by these military despots, themselves tyros in the business of administration, was unlikely to display a wise discrimination. Young men were chosen on account of their claim to qualities and opinions which would not have recommended them to their instructors. What was the consequence for these products of Western education, eager, adaptable, intelligent, as many of them were? Crammed with ill-digested knowledge, dizzy from a surfeit of half-baked ideas, flattered by their teachers, hastily promoted by

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new patrons even less sophisticated than themselves, fawned upon by craftier men who would use them for their own purpose, constituting among themselves a semi-alien society for mutual admiration, they were inebriated by the exaltation of their own self-confidence. No task was too great or too difficult for them. Each felt that if his particular patron could but make himself master of all China—well, the world would see.

Thus it has come about that during a most critical period in the history of a civilisation, a period which called for selfless devotion to the public service, ambition has been the ruling passion. In certain noble minds at all times, and in other minds at noble moments, this ambition may have been worthy. More often, unhappily, it has been ambition due to greed of personal gain or to the flatulence of conceit. To this circumstance is mainly due the endless succession of civil wars, waged by combinations of tuchuns, abetted as much by their civil as by their military staffs. So long as Peking remained the "capital" it was the great prize in the civil war game, as the super-tuchun who made himself master of it could select from his own following "the Government of China," whether they might be recognised by foreign Powers as such or not. *A de facto* independent government existed, nevertheless, wherever a tuchun held sway who was unwilling to obey the commands of the super-tuchun in occupation of Peking. With the local government of each such tuchun foreign Powers were compelled to come to understandings, through their consular officials or otherwise, if they desired to make business possible for their nationals in the region that the tuchun controlled.

There has been but one instance in which it can be truthfully said that civil war has been waged for a body of ideas or ideals, rather than on account of personal ambition. Wherever the political capital of China may have been, the people of three of the southern provinces of China have always looked upon Canton as the fountain-head of their particular culture. Whether from heredity, or

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environment, or both, the people of these provinces are more nimble-witted, more volatile, less reliable than the people of other provinces, who have always regarded the southerner as only less alien than the outer barbarian. These provinces have had far more contact with the foreigners than the rest of China, scarcely a family* but some member of it has worked abroad. In these provinces the tuchun never attained the same undisputed domination over the civilian that he held elsewhere. Sun Yat-sen waged with the pen and with the tongue a continuous struggle for local control over the men of the sword. Up to the year 1924 he met with a very varying degree of success. In that year, however, a new catalytic element was introduced. The help of Soviet Russia was enlisted, a corps of Soviet agents, civil and military, under a leader of great ability and force of character, arrived from Moscow. These men displayed much of the wisdom of the first Jesuit missionaries. They lived as Chinese, they sought to learn Chinese, they set themselves to graft rather than to uproot. Their immediate success was staggering. Working on and with Sun, they gave colour to a body of political doctrine, which he outlined in his "Manifesto" and amplified in his "Three Principles of the People." They imparted to Sun's adherents, the Kuomintang, the military training, the cohesion, the driving force which enabled them by force of arms, supplemented by systematic propaganda, to acquire control of China south of the Yang-tse river. There, while Hankow was temporarily the headquarters of the movement the moderates of the party were scared by the excesses of their own left wing, supported by the Russians. A breach took place which has never, in fact, been healed. The Russians were expelled—a fate which all along had been in store for them as soon as this catalytic element had served its temporary purpose. The movement had, however, acquired enough impetus, and the party sufficient cohesion to carry the nationalist arms to the Great Wall. There

* The word "family" when used in connection with China has a significance approaching that of the word "clan."

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for reasons which we shall discuss, it abruptly ceased its advance; it straightway began to disintegrate. Its generals began, as occasion offered, to adopt the rôle of tuchun, its civil disciples to consider what could be made out of the political game. Chiang Kai-shek, who on the apotheosis of Sun Yat-sen had become the military leader of the movement, became, in the eyes of the unsophisticated peasant, but as other tuchuns, though for the moment *primus inter pares*, the Ministers established in the new capital of Nanking, became as the assistants of other tuchuns.

When the Kuomintang left the three southern provinces behind them, they advanced into a country in which the body of the people knew nothing of the Three Principles and cared less, a region in which all that emanated from Canton was under suspicion, and control by Cantonese* was anathema. Of the Three Principles—national independence, democratic government and social reorganisation—the first only was readily understood and accepted without argument. It was natural, therefore, that both in word and in deed greatest stress should be laid on the principle of national independence. Thus only could the prestige of the Government be enhanced at home, thus only could some show of unity be made abroad. The efforts of the Kuomintang Government in this direction were greatly facilitated by the excellent press which, largely as a result of skilful propaganda, the party enjoyed abroad, and by the decision of the British Government, notwithstanding such unfortunate incidents as the murderous attack on foreigners at Nanking and the assault on the British Concession at Hankow, to increase the *tempo* of the policy of conciliation adopted at Washington in 1922.

Whether for good or for evil, it is unquestionable that the achievements of the Kuomintang Government in the sphere of foreign affairs were considerable; so considerable that a feeling spread that China had now acquired such

* Chiang and most of his principal Ministers come from the lower Yang-tse provinces.

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moral weight, if not such physical force, that she might safely bid defiance to anybody—even to Russia or to Japan.

Again, in the Department of Finance, for five strenuous years an able Minister has been endeavouring to introduce into financial procedure regularity, as regularity is understood in the West, and to obtain central control over the collection and disbursement of revenue. With the help of a number of competent foreign assistants, he has been building up a Treasury Department. Unhappily, the dead weight of opposition to regularity and control has been so great that, except in the case of the tariff, where a foreign-made service was ready to do his bidding, no appreciable result affecting the general financial position and welfare of the people has been visible outside the four walls of the Treasury. The same Minister has been mainly responsible, in collaboration with a corps of able and self-sacrificing assistants, foreign and Chinese, for the very special famine relief measures necessitated by the great floods of 1930. The considerable success which these measures have achieved wherever the writ of the central government ran has been as a ray of hope in the darkness to all well-wishers of China. These successes, be it noted, are attributed to a person and to co-operation with that person, not to any fundamental improvement in the general situation.

That measures the material change which has been wrought by the rise to power of the Kuomintang party. Paper reform there has been in abundance, but otherwise things go on as before—tuchuns and their assistants, rapacity and injustice, civil war and the balance of power, banditry and communist rebellion which is indistinguishable from it, flood and famine, starvation and death.

There still flourish tuchuns, and others, who are not under the control of the central government in this very practical sense that an instruction from the central government will be regarded as an order. Consequently direct negotiation is still necessary between the representatives of foreign Powers and local governments in regard to matters affecting

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the interests of foreigners in the areas which those local governments control. The difficulties that are liable to occur when a serious dispute arises regarding the rights of foreigners in such an area, particularly the difficulty of fixing responsibility, can well be imagined. They have been experienced to the full in Manchuria.

It may, as the Commission suggest, be an exaggeration to speak of "complete chaos" and "utter anarchy," in describing the general situation of China. It is no exaggeration to say that it becomes progressively more difficult for an enlightened Chinese to carry on an honest business, a humble peasant to support himself and his family in life. Perhaps these circumstances do not distinguish China from all other parts of the world, but the situation created in the social, political and moral spheres by the clash of two civilisations does so distinguish it.

II. MANCHURIA : AN UNPARALLELED SITUATION

AS has been said, Manchuria is part of China. Till the other day the fact had never been questioned. It is true that, while for more than three hundred years Chinese governed Manchus, for close on three centuries Manchus nominally governed Chinese. But this does not affect the matter. The Manchus have practically ceased to exist as a separate race ; the Manchus, like Manchuria, have become Chinese by absorption. Being, then, part of China, Manchuria has shared the history of China.

When the Kuomintang made their drive from the south, the Three Eastern Provinces (as the Chinese call Manchuria) had long been governed by a super-tuchun, Chang Tso-lin, whose character and antecedents have already been sketched in *THE ROUND TABLE*.^{*} As tuchuns go, he was able and shrewd, he was often actuated by laudable motives, nevertheless, whether moved by personal ambition or by the

^{*} See *THE ROUND TABLE*, No. 49, December 1922, p. 106.

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persuasion of an ambitious staff, he was conspicuous in the civil war game. All that has been said about tuchuns and their assistants is generally true of the Chang Tso-lin régime. How comes it, then, that Manchuria is not as other parts of China? To answer this question we must glance at the recent history of Manchuria, which will bring us to the matters now in dispute.

When the Manchu Banners passed inside the Great Wall in 1628, they left their homeland—the great central plain of Manchuria with its surrounding hills and forests—almost empty. This vast region, rich in its fertility as in its minerals, supported in the south a few Chinese settlements, a few less enterprising Manchus remained in scattered villages, elsewhere a few nomadic Mongols roamed at will. Though Chinese immigration into Manchuria was thenceforth banned, neither regulations nor the Great War were able altogether to exclude them. Gradually Chinese worked their way northward over the great plain, absorbing the remnants of the Manchus as they went, pushing the Mongols before them. For two and a half centuries this slow and peaceful penetration continued—the Chinese conquering with the plough the country of their conquerors. Then, in 1878, Peking became alarmed by another encroachment. From the north and north-west the Russians were slowly moving into a territory of which the frontiers were vague. To fill the void into which this advance was taking place, Chinese immigration was not only permitted but even encouraged. The rolling flood of Chinese peasants flowed northward. Russia built her trans-Siberian railway by a circuitous route outside the northern frontier of Manchuria.

The Sino-Japanese war of 1894-5 afforded Russia the opportunity for obtaining by secret diplomacy and the corruption of Chinese officials something of what she wanted. As a *quid pro quo* for help in securing the return to China of the Liaotung peninsula and in paying off the war indemnity, she was granted the right to build a 900-

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mile chord to her transcontinental railway across northern Manchuria from west to east, and to "administer" the land acquired for the purpose. In 1898 she obtained a lease of the southern part of the Liaotung peninsula, the Kwangtung territory—required for her projected naval base, Port Arthur—and the right to connect this territory with the chord line already built by the construction of another great railway on her own peculiar gauge, traversing Manchuria from north to south. Similar rights of administration and the additional right to mine coal and fell timber for this railway formed part of the new concession.

In 1900 the Boxer rising gave Russia an excuse for occupying Manchuria, and, when the rising was suppressed, she was with difficulty prevented from concluding another secret treaty which would have given her a virtual protectorate over the whole territory. This did not prevent her, however, from continuing her pressure, particularly in the direction of Korea. Japan, who had been closely watching these events, had already become alarmed. Meeting with no success in her attempts to obtain by negotiation an undertaking that the "open door" and the territorial integrity of China would be maintained, she declared war in 1904. Japan's victories on land and sea enabled her to wrest from Russia much of what Russia had squeezed from China.

By the treaty of Peking, in 1905, Japan obtained from China the Russian rights in the greater part of the stem of the railway T that Russia had built and in the leased territory of Kwangtung. At the same time she obtained a concession to improve the military railway which she had built from Antung, on the Korean frontier, to Mukden. She converted this line and her section of the T's stem to standard gauge (the gauge of Europe, except Russia, and of America, China and Korea, though not of Japan). Russia retained for the time being her rights in connection with the railways which she had already built in northern Manchuria, the Chinese Eastern Railway. Since that

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date it has been the persistent policy of Japan to fasten more tightly her hold upon southern Manchuria by increasing the privileges of her position there. Equally it has been the policy of China to balk these attempts to encroach upon her sovereign rights.

The considerations which have determined the policy of Japan are strategic as well as economic. She has spent great sums on railway and other works designed with the object of taking up in central Manchuria a first line of defence against attack from Russia. She has endeavoured to secure the construction of other railways which would facilitate rapid deployment on this front. If it be accepted that it is wise for Japan to establish her front line trenches in central Manchuria, no one will question her wisdom in taking steps to ensure that she can rapidly transport and adequately maintain the force required to man them. What the Commission do very reasonably question is the wisdom of establishing a front supported by long lines of land communication in a region which is passively, and may become actively, hostile.

In the economic sphere Japan looks to the development of these virgin tracts, lying before her own back door, for employment for her heavy industries. She rightly supposes that a newly-opened country, specialising in its agricultural production, will produce more external trade *per capita* than an old country whose agriculturists strive to produce all that its citizens require. Japan anticipates an ever-increasing exchange of Manchurian beans, rice and coal for Japanese piece-goods and general manufactures. These visions may be prophetic, but, gazing at them in entrancement, Japan may, as the Commission hint, at times lose sight of the immediate facts that China has 400 million inhabitants, or more, against Manchuria's 30 million, that from among Japan's principal manufactures more than half the exports go to China inside the Wall. It is possible, too, that Japan's judgment may be warped by pride in her technical achievement. She has

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produced in the South Manchurian Railway, its ancillary mines, works and townships, a magnificently efficient machine. She has a justifiable pride in the work of her hands.

It is only possible to glance at the means by which Japan has sought to give effect to her policy, China to defeat it. At various times and in various ways Japan sought to make firmer the hold that the South Manchurian Railway gave her. She secured from the Chinese an extension of the lease to a period of ninety-nine years ; China contended that agreement in this, as in other matters, had been wrung from her under duress. Japan stationed military police, to the number of 10,000 or more, along her railways, and denied the use of them to Chinese troops except on cash payment (thereby discouraging civil war) ; China contended that Japan had been permitted to police her railways only for so long as Russia policed hers and China could not afford adequate protection ; she pointed out that Russian police had been withdrawn and asserted that Chinese police could now give all the protection required. Japan claimed, on somewhat flimsy grounds, that there was an agreement that the Chinese should not construct any parallel line or any branch line which would prejudice the Japanese railway interest : the Chinese built railways to attract traffic from northern, eastern and western Manchuria, and adjusted their freight rates in such a way as to keep this traffic on their own metals. The Japanese lent* money for the construction of lines expected to bring traffic to the South Manchurian Railway, or to serve their strategic plans ; the Chinese failed to meet the service of the loans or to appoint Japanese officials as required by the loan agreements. The Japanese did all they could (even by sheltering Japanese residents from the payment of legitimate taxes) to add to the commercial importance of townships

* By accession to the "Twenty-one Demands," into which the Chinese had, as they contend, been browbeaten in 1915, the Chinese had undertaken not to borrow from anywhere else than Japan for the purposes of such railway construction.

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the direct assumption by Japan of political control. The plan, if plan there was, was frustrated by the coolness of the Chinese. They gained ten days' breathing space by pretending that the Old Marshal still lived, and arranged to support the succession to the tuchunate of the Young Marshal, his son, Chang Hsueh-liang.

Though Chang Hsueh-liang inherited his father's position, it was impossible that his personal relations with the Japanese should be on the same footing as his predecessor's. It was inevitable that in fact, whatever tactic policy might dictate, fear and hatred should be his uppermost feelings. There were other circumstances, too, which must in any case have jeopardised the continuance of mutual respect. The young man, who thus prematurely had greatness thrust upon him, was not brought up in the same hard school as his illustrious father. The spoiled child of a rough but oriental court, he had received a semi-western but very fragmentary education. A base advantage had been taken of his love of sport and experiment. Temptation to excesses had been dangled before him which he had not been able to resist. Men, and women, who had quailed before the father's glance, were able by fawning flattery and artful misrepresentation to get their way with the son. Before a year was over he had officially assassinated his two most vigorous and trusted lieutenants, on a suspicion which was almost certainly ill-founded.

The Japanese had no longer one man to deal with, they had a court with all the arts of court intrigue as practised from time immemorial in Asia—arts, incidentally, in which they themselves are not altogether unversed. With such a legacy of trouble and such an accumulation of personal and pressing difficulty, is it surprising that this young ruler felt himself unable without help from outside to support his country's policy against Japan? The hoisting of the nationalist flag at Mukden was not evidence that Chang Hsueh-liang and his followers had imbibed the pure milk of the Three Principles, but merely an acknowledgment

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of the fact that in an alliance with Nanking they found the only alternative to a virtual Japanese protectorate. But despite this alliance and continuous Japanese incidents Manchuria maintained a position of virtual autonomy which was not turned to any very good account.

Not to be behindhand in the national independence movement, the Young Marshal attempted to get rid of Russian joint-control over the Chinese Eastern Railway secured by an agreement in 1924. The panic-stricken flight of his armed hordes, before a small but efficient force supported by numerous 'planes, taught him the consequences of sticking pins into the Russian Bear. Throughout the "Three Provinces" he resorted to a favourite device of the tuchun in distress, which had been practised tentatively in his father's time. He issued paper money against no security, on a scale which no one else had ventured. World economic depression and the slump in the price of produce deprived the peasant of his accustomed revenue; drawing on his savings he found that in some mysterious way his hard-won money had turned into waste paper. Small wonder that banditry increased. Undeterred by an ominous financial situation at home and trouble enough abroad, Chang entered into a contract for the construction, at a cost which will not be less than thirty million silver dollars, of a new port obviously intended to be a rival to Dairen, but never likely to justify its cost. Verily rash seamanship in stormy weather, the ballast thrown overboard, a heavy press of sail set, "youth at the helm and folly at the prow." There were indeed so many "features without an exact parallel" that a spark much sooner or later have set light to the mass of inflammable material. It matters little whether the spark struck by certain Japanese lieutenant was due to his own Chauvinist proclivities or to orders from higher authority. His action merely fixed the exact moment at which Japan's representatives put into operation a carefully prepared plan for bundling Chang Hsueh-liang, his entourage, and his

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army, out of Manchuria. The apparent failure of the moderates' policy to achieve results, extremely difficult personal relations in Manchuria, the starting in China of the seventh boycott of Japanese goods since the 1911 revolution, made an eventual loss of temper by Japan's representatives all but inevitable.

It must be remembered, however, that we have been speaking here of a military *coup d'état* which was essentially destructive in its aim. There is no evidence that, as a counterpart to this, the civil Government of Japan had ready any constructive plan for the creation of a new State. Indeed, the somewhat haphazard way in which a new government of Manchuria came into being affords presumptive evidence of the lack of any preconceived plan. The course of events, and the reaction of popular opinion to these events, may have forced upon the Imperial Government the conclusion that a certain course of action was unavoidable. The nature of that action, the circumstances attending the birth of Manchukuo, and the present failure of her puppet government to establish order and to gain general respect have already been explained in these pages.* The growing conviction in the army and among the mass of the Japanese people that in the main the Chauvinists were right, and that the moderates had proceeded so cautiously that an intolerable situation had been created for Japan, has since led to the official recognition of Manchukuo. On September 4, eleven days prior to this recognition, the Commission signed their Report at Peiping (Peking).

III. THE REPORT

IN their Report the Commission give an account of the general situation in the Far East and of certain historic events which contributed to the creation of that situation. In this account, no doubt for very proper reasons, though

* See THE ROUND TABLE, No. 88, September 1932, p. 808.

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there is scarcely a phrase that can be challenged, the stark truth is sometimes shrouded in the euphemism of diplomatic language. In the foregoing paragraphs an attempt has been made to show the truth in all its naked unpleasantness. This is no time for mincing words. The unvarnished truth must be faced. In the light of the facts, however deplorable, each of the Commission's recommendations must be considered.

Let us, then, review these recommendations, taking first the Commission's findings and suggestion in regard to boycotts—a subject which has scarcely been touched upon here, but to which the Commission devote a very lucid chapter. The Commission find that, in present circumstances in China, boycotts are organised and controlled by the Kuomintang party as a means of bringing economic pressure to bear on some other country with which China happens to have a dispute. They find that in order to enforce such boycotts illegal acts are perpetrated which are neither punished nor suppressed. They hold that these two circumstances taken together implicate the government. These findings mean that with government connivance or approval the boycott is being used as a weapon in international disputes, economic war is being carried on without an official declaration. They suggest that the decision whether this is a legitimate weapon is a "problem of international law" rather than a subject for their enquiry. They "express the hope that, in the interests of all States, this problem should be considered at an early date and regulated by international agreement." We, too, may express the hope that whatever else is done a genuine attempt will be made to give effect to this suggestion of the Commission.

The proposals of the Commission for bringing order out of confusion in Manchuria are necessarily more elaborate. Briefly they amount to this. The Council should invite the Governments of China and Japan to depute representatives to attend two separate conferences.

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The purpose of the first, or advisory, conference would be to draft proposals for the constitution of a special régime in Manchuria. These proposals would be submitted to the Government of China which would embody them in a declaration and submit it to the League of Nations and the signatories of the Nine-Power Treaty, who would receive this declaration as having the binding character of an international engagement. The countries interested would then conclude a treaty of non-aggression against Manchuria. The second conference would be concerned with the drafting of new treaties between China and Japan dealing with (1) the definition of Japan's special interests in Manchuria, including her railway interest; (2) conciliation, arbitration, non-aggression and mutual assistance, including provision for the ultimate demilitarisation of Manchuria; (3) the reconciliation of commercial interests. The Commission contemplates the possibility of the Government of the U.S.S.R. participating, through a separate tripartite treaty, in the agreements come to regarding non-aggression and mutual assistance.

The régime in Manchuria which the Commission envisages is a semi-autonomous government under Chinese sovereignty. The Chinese Government would appoint, at any rate the first, chief executive. They would retain control over foreign affairs, the posts, the customs and certain other principal sources of revenue. Revenues collected from these sources would be divided between the central and the local governments in agreed proportions. As soon as conditions permitted there would be no armed forces maintained in Manchuria, save a gendarmerie, "organised with the collaboration of foreign instructors." For this and other purposes "an adequate number of foreign advisers would be appointed"—a substantial proportion of them Japanese—in a manner consistent with the sovereignty of China. Further, "two foreigners of different nationalities," enjoying "during the period of reorganisation and trial" "extensive powers" "defined in

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the Declaration," would be appointed in the same way to supervise (1) the gendarmerie, (2) the fiscal administration.

The last of the Commission's "conditions of a satisfactory solution" is this. "Since the present political instability in China is an obstacle to friendship with Japan and an anxiety to the rest of the world . . . and since the conditions enumerated above cannot be fulfilled without a strong central government in China, the final requisite for a satisfactory solution is temporary international co-operation in the internal reconstruction of China . . ." This requisite, though "final" in the sense that it has been placed at the end of the Commission's list, is evidently first in order of importance.

IV. A PLAN OF ACTION

HERE, then, are two co-related problems of the first magnitude. In each case the Commission have proposed for the Council's consideration a solution which, if it be attainable, appears to be ideal. But what are the prospects of attainment, and what can we do to enhance them?

In the first case, the action that the Commission propose to the Council can be simply stated. It amounts to no more than this: that the Council should endeavour to bring Japan and China together to discuss, in a spirit of mutual respect and concession, an agreement on certain lines. We may take it for granted that at their forthcoming meeting the Council will adopt the Commission's recommendation and make this endeavour. While earnestly hoping that the endeavour will succeed—and despite all that has happened there is no cause to abandon this hope—we must admit the possibility of temporary failure. Any such failure will not detract from the wisdom of the Commission's plan, though it must postpone its realisation.

Such failure must not lead the Council to countenance any

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alternative plan. The new State of Manchukuo, for example, must not, cannot, be recognised. It rests on no sure foundation. As a State it must remain an unrecognised upstart, politically ostracised. This is not to say that an attempt must be made to upset Manchukuo by force or economic pressure. The Japanese may have been wrong in trying to force this bastard State upon Manchuria, and to introduce it to the world as a respectable member of international society. This is but one of a thousand wrongs that have been committed in and on Manchuria, and it would be rash to assume that the Japanese have been the gravest offenders.

But, whoever may have committed these wrongs, it most certainly has not been Great Britain ; we have no responsibility for the creation of the Manchurian mess. We may properly join with the League, acting, let us hope, in consonance with the United States of America, in an attempt to bring the parties together and in keeping the way open for a reasonable and permanent settlement. We are under obligation to decline to recognise a situation which, as the Commission say, is incompatible with "the fundamental principles of existing international obligations" ; but we are not required to rush to arms to rectify it. Nor is there need. If the world, undeterred by threats or by eloquence, persists in maintaining with one voice that the Commission's plan is right and that neither the Manchukuo nor any alternative plan will be forced upon its recognition, in the end the world will have its way. The danger is that one or other of the disputants will succeed in causing dissension in the Council or in the Assembly—tactics for which the Chinese particularly have shown a remarkable flair. The Council and the Assembly must remain united on their Commission's recommendations. They can never be unanimous on any other platform.

Still, as the Commission point out, agreement on the particular questions at issue between Japan and China, even though that agreement be endorsed by the whole

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world, cannot by itself prove an adequate guarantee of a happier future for the Far East. There is no prospect of such a future unless stable and effective government can be restored to China, and there is no hope of restoring such government except through temporary international co-operation. This is *the* "Capital Question" in the Far East, first in importance for China, for Japan and for the world at large. Faced by the grim realities of the situation, to sit by with folded hands and a benign smile waiting for China to work out her own salvation cannot be counted for righteousness. It indicates rather ignorance, cynicism or cowardice.

It is true that, while the Commission have explained in considerable detail how international co-operation should be organised in Manchuria, they have not explained how they think that such co-operation should be organised in the rest of China. Evidently the Commission's plan for Manchuria is not entirely suitable for China inside the Wall. Yet if we may judge from the insight, the breadth of vision and the statesmanship displayed in the Commission's Report, it would be difficult to find five men better able to recommend a plan for China inside the Wall as well as outside. Perhaps they may be asked to do it. In the meantime certain outstanding points only can be noticed.

The area involved is too immense, and the conditions in that area are too various to permit of an immediate plan for all China. Co-operation can only take place where the will to co-operate is present.

Powers who have undertaken "to respect the sovereignty, the independence and the territorial and administrative integrity of China," cannot force upon a Government of China, recognised as such, an administrative system in which foreigners participate. By doing so they would lay themselves open to that very charge of breach of faith, to which the Japanese have made themselves liable in Manchuria. However limited may be the area in which co-operation takes place, it is essential that within that

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area representative Chinese opinion should genuinely desire temporary foreign help in a task which presents great temporary difficulty. Furthermore, it is impossible for Japan to participate in this task—an attempt by more active measures to give China, or some part of it, that opportunity to develop a stable and effective Government which the Washington agreement contemplates—until there has been a settlement in Manchuria that is in accord with the spirit of the same treaty.

On the other hand, Chinese opinion is unlikely to favour co-operation, even with the League of Nations and America, so long as Japan is, not only outside the arrangement, but liable to repeat such attempts to rectify matters by the use of force as were made at Shanghai early this year. There will be no desire for co-operation, and no hope of successful co-operation, in any part of China, unless the most positive assurances can be given that while this help is being afforded in any part of China, there will be no attempt by any foreign Power to further the objects of its own policy by the use of force against that part of China. Given international co-operation with a recognised Government of China, in which Japan plays her part, the Japanese contention that China cannot exercise sovereign rights in Manchuria because she is incapable of exercising them anywhere will lose all its force, the liquidation of the Manchurian situation will be facilitated, and a guarantee of immunity from coercion will present no difficulty. The different parts of the Commission's plan—a settlement in Manchuria, co-operation in China, guarantees against aggression—dovetail into one another. But, if Japan is temporarily opposed to any part of the plan while the rest of the world, including China, supports the whole plan, it is most desirable that so much of the plan as possible should be immediately carried out. The Manchurian settlement, being dependent on Japanese action, would have to wait. Co-operation, being dependent on League action, need not wait; assurances, being dependent on action by the

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interested Powers, need not wait either. To refuse such assurances would be entirely opposed to the treaty obligations which these Powers have assumed. Japan, even though in Manchuria she may remain for the time recalcitrant, can find no excuse for refusing assurances in regard to another part of China while that other part of China is being governed under agreements made with the League for temporary co-operation. Great Britain and the United States of America, by obtaining for China the requisite assurances, and by taking an active part in the arrangements for co-operation, can do much to retrieve a position for which they are in part responsible, since it is to the activities of their nationals, however good may have been their intentions, that much of the mess is due.

If these assurances are given and co-operation is arranged, it will not be long before Japan decides to act upon the recommendation of Lord Lytton's Commission for the liquidation of her disputes in Manchuria. The Japanese people, shrewd realists as they are, will see which way their greatest interest lies. *Their* help too will become available in the greatest task that ever fell upon the League of Nations. A hundred lesser issues will then be merged in a greater one.

THE PRESIDENT ELECT

FRANKLIN D. ROOSEVELT was elected President of the United States on November eighth : he will take office on the fourth of next March. Mr. Roosevelt is fifty-one years old ; he was educated at Groton, Harvard College and Columbia Law School, and has practised law in New York City. In 1910, when he was twenty-eight, he was elected to the State Senate, resigning in 1913 to become Assistant Secretary of the Navy under Josephus Daniels and Woodrow Wilson. His administrative record during the war was good, and served to enhance an already good reputation. He was nominated for the Vice-Presidency of the United States on the Democratic ticket in 1920 ; but Governor Cox of Ohio and he were defeated by Harding and Coolidge. Eleven years ago he was struck down by infantile paralysis ; but, except for the total loss of the use of one leg, he regained his health and strength completely. He became Governor of New York in January, 1929, and he is now serving his second term. His record as Governor has not been notable but he has been conscientious in the performance of his duties, moderately progressive in his social and economic views, adroit in his political manœuvres and honest in his acts. Franklin Roosevelt should acquit himself satisfactorily as President—unless the peculiar problems of these difficult times prove too much for him.

The election of a Democratic President is, in itself, a rare event. During the past fifty years thirteen men have held that post and all but two of them—Cleveland and Wilson—were Republicans. In the last three campaigns the Republican majorities were overwhelming ; Harding, Coolidge and Hoover each defeated his Democratic rival by six and a half million votes or more. In 1928 Hoover engulfed his opponent, polling 444 votes in the Electoral College to

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Smith's 87. Thus for Roosevelt to convert a 1928 deficiency of six and a half million votes into a plurality of the same figure, and to turn a negligible 87 in the Electoral College into a thumping 472 would seem, on the face of it, to be an astonishing feat. Such a statement of the case, however, would be misleading; for when the results were made known, very few people in the United States were really astonished. The Maine elections in September had shown the way the wind had shifted, and long before November first the stock market had begun to "discount" a Roosevelt victory. As the campaign progressed, betting odds rose steadily in his favor, and without a break, from even money to 7-1; and the *Literary Digest* magazine, collecting the unofficial votes of more than three million citizens, gave Roosevelt a commanding lead, week after week, as the "returns" poured in and were counted. It would likewise be misleading to attribute too great a part in the victory to the victor himself. The depression elected him. From the army of ten million unemployed, from the three million more men and women who may be out of jobs this winter, from the hundreds of thousands who have seen their capital savings disappear into thin air, came Roosevelt's huge majority. Their disillusionment and their despair accrued to him. Their uncompromising resentment against Hoover was ready to be turned into Democratic votes long before anyone knew whether Roosevelt or Baker or Smith or Ritchie would be the nominee of the Democratic party. Almost any Democratic candidate could have won this election hands down. It is, therefore, most fortunate for the country that a man of Roosevelt's character and record will occupy the White House for the next four years.

The winner's strategy lay along simple lines. First, he realized that he must prove to the satisfaction of the country that his serious illness, ten years back, had not impaired his health and strength. He seems to have dissipated this doubt conclusively. On the morning after his nomination, he flew by airplane from Albany to Chicago in bad weather

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and made his acceptance speech from the platform before the Convention adjourned. He then took a two weeks' holiday off the Atlantic coast in a yawl, accompanied only by his sons. His campaign involved a gruelling train journey of 20,000 miles around the United States in the course of which he spoke to huge audiences at every turn. And he ended this remarkable personal demonstration by driving six hundred miles in the rain through the New England States in an open car, converting hundreds of thousands of skeptics who came out to the roadside to see him with their own eyes. He delivered a carefully prepared address on the railway situation ; he elaborated his views on the relation of the government to public utilities ; he emphasized the need of balancing the budget and he declared against any consideration of the soldiers' bonus, at least until the budget had been balanced and a cash surplus had been shown by the Treasury. But while these speeches did clear up some uncertainties with regard to Governor Roosevelt's own views, they nowhere joined issue with Republican policies, nor did they contribute anything of value to the solution of national and international problems. He promised a " new deal." He solicited the vote of the " forgotten " man. Above all, in season and out of season, he rang changes on the theme—so sweet to his listeners—that Hoover and the Republican party with their sins of omission and their sins of commission were responsible for the present parlous state of affairs in the United States. Mr. Roosevelt set his cap for the Presidency and in this way he got it. From the standpoint of strategy, his conduct of the campaign was perfect. And be it said to his everlasting credit that, while he made capital out of the prevailing discontent, he did nothing to foment it.

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II.

THE Democratic victory was complete. Their Presidential candidate was given more than twenty-five million votes, his plurality over his rival ran to six and a half million; he captured forty-two States out of forty-eight and he will receive 472 votes out of 531 in the formal part of the Electoral College. In thirty-four State contests Governor, twenty-eight Democrats appear to have been elected, though the returns are not yet fully tabulated. What is more important, the next House of Representatives and Senate will both be Democratic by large working margins; the victorious party will have a majority of twenty-three in the Senate and will control the House by an unprecedented majority of about two hundred. Newspapers on the desk before me describe the day before yesterday's doings as a "cyclone," an "avalanche," a "tornado," "landslide"; but the country, in fact, is very much at rest after its brief convulsion, and by next week the affair will be a nine days wonder. Many people regret that a change of administration had to take place just now, many are concerned about the course of events between now and next March; many wish that there had been more discriminating recognition of the strong leadership shown by Mr. Hoover during the past eleven months, and a more sympathetic response to his last desperate effort to snatch victory out of defeat. Yet, in the main, the people are either pleased with Roosevelt's triumph or are reconciled to it. Jim Watson of Indiana will not be heard in the Senate next Spring, nor Moses of New Hampshire, nor Smoot of Utah. We shall have a new Cabinet, including, it is hoped, a man comparable in moral courage with Mr. Stimson—and a new flock of Ambassadors will go forth. But though the "avalanche" bowled over a lot of landmarks, it did plough deep beneath the surface. Thirteen million vot-

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brought almost to the edge of ruin by playing the red, decided to play the black on the off chance. Their chief motives for changing from the Republican to the Democratic side of the table were neither profound nor radical; they had lost confidence in Hoover and his party and they determined to turn them out. They were warned that if they did so "the grass would grow in the streets of a hundred cities, a thousand towns; the weeds would overrun the fields of millions of farms." That didn't frighten them. They were besought "not to swap horses when crossing a stream." That didn't dissuade them. They took their brooms and swept out the house, and they feel much the better for a good day's exercise.

The very size of the Democratic victory is certainly a favorable factor. In his first message after election Governor Roosevelt declared that the result was more than a personal tribute, more than a party triumph; and there is every indication that he is approaching his new duties with a grave sense of national responsibility. When the new Congress meets in a special session, which he will undoubtedly call next March, both Houses will be friendly to him, and disposed to assist rather than obstruct his program for recovery. What is more, the size of his vote ought to free his hands from the fetters of special obligations which might otherwise have been incurred in his campaign. His friends from the central South headed by Huey Long of Louisiana, his friends from California led by Mr. McAdoo, and William Randolph Hearst, all lent useful support to him in the late spring and summer. But unless Mr. Roosevelt gave specific pledges to these groups in the stress of the campaign (and it is understood that he did not) his huge majority ought now to refute any claims on their part that they played a decisive rôle in his victory.

Immediately after the election the air was filled with rumors of this and that. It was said, for instance, that Mr. Hoover would pursue a course contemplated by Woodrow Wilson in 1916 when it looked as if Mr. Hughes would

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defeat him—it was reported that Mr. Hoover would request the resignations of Vice-President Curtis and Mr. Stimson, that he would name Roosevelt as Secretary of State, and that he would then submit to Congress these two resignations together with his own, with the result that Mr. Roosevelt would become acting President immediately. But Mr. Hoover's most intimate friends promptly announced that he had no such thought in his mind, and Mr. Roosevelt as promptly stated that he intended to serve until January first as Governor of the State of New York. So the first of the flock of rumors fluttered down with a broken wing. Then the amateurs began to select the new President's Cabinet for him—Norman Davis or John W. Davis would be Secretary of State, Owen D. Young, Bernard Baruch, Senator Carter Glass or Melvin Traylor, the Chicago banker, would be Secretary of the Treasury. And so it went. Today Mr. Roosevelt took a hand in this game himself, characterizing all such rumors as "wholly unauthorized" and making it clear "that no decision will be reached in regard to any appointments for at least two months." Expectations at this moment run so high—there seem to be so many Talents available for this new Ministry—that even after the cooling effect of a two months wait the final announcement is sure to cause disappointment in some quarters. For the man in the street is apt to forget that tradition and expediency set a limit to the number of Cabinet members who can be drawn from one district such as New York City ; and he is also likely to lose sight of the fact that a Cabinet is assembled to be a harmonious working unit of government and not to be a collection of operatic stars.

Something more than rumor, however, has led to the hope that there will be active collaboration between Mr. Hoover and Mr. Roosevelt on national problems during the next four months. The President can hardly fail to consult his successor with respect to next year's appropriations ; he may well call for help when the long-awaited

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war debt notes reach Washington ; and it is reasonable to suppose that the American experts, now engaged in drawing up an agenda for the International Economic Conference, will ask Mr. Hoover, almost at once, whether they are to continue to act under the set of instructions given to them in Washington before they went abroad, or what they are to do. It seems quite logical for Mr. Hoover to refer this question to his successor. Since these matters are urgent, it is a hopeful sign that in his magnanimous message of congratulations, Mr. Hoover added : " In the common purpose of all of us I shall dedicate myself to every possible helpful effort." Likewise in Mr. Roosevelt's statement of November 10 a real prospect of collaboration may be read between the lines : " From now until January 1, 1933, the *greater part* of my time will be occupied with my duties as Governor of the State of New York." The evidence, so far, is admittedly thin ; but the need for consultation is obvious, hopes are high, and both the principals are patriotic gentlemen.

One question, however, need cause them no concern. For if the present Congress does not decide to modify the Volstead Act to permit the manufacture and sale of light wines and beer, Mr. Roosevelt's Congress will do it as soon as it is convened. Exigencies of budget making may force action more quickly than is now expected ; for a tax on these consumables would yield substantial revenue without strain, and without a further burden on individual and corporate income. Perhaps we shall have to wait until Spring to be done with this iniquitous legislation ; but the end is near and sure. On this point at least the mandate of the election is unmistakable ; for though prohibition was not an issue in the Presidential campaign, it was a specific issue in contests for seats in the Senate and the House. Candidates were asked to state their position unequivocally, and most of them did so. Of the twenty-seven Senators who were elected on November 8 nineteen had declared themselves " wet," and four others, who did

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not state their position in so many words, ran for election on platforms which declared either for resubmission of the Eighteenth Amendment to the voters of the several States, or for its outright repeal. Three hundred and fifty-one Representatives were elected; two hundred and twelve of them were self-styled "wets" and a hundred more rested on the statements in their respective platforms. Far more than two thirds of the new House will vote for repeal or resubmission, and the Senate majority will be substantial. The Volstead Act is as good as killed, whether by the present Congress or the next one, and the repeal of the Eighteenth Amendment, which has hitherto been regarded as beyond the pale of possibility, now seems within reach. The great twelve year experiment has failed. It is now coming to an end, and with that smoke screen for bootleggers, racketeers and other criminals swept out of the way, it may be possible to deal somewhat with this gentry.

III.

DURING the twelve years which have passed since the war ended, we have been witnessing a second "noble experiment," and now its failure, too, must be confessed. We imagined, in this country, that international debts, incurred during the war and finally ratified after the conclusion of peace, could and would be paid. It becomes clear that we shall fail to collect a large part of the sums due us over the next two generations. It also becomes clear—and it may perhaps be expressed in this way too—that our debtors will fail to meet their engagements to us. Once, in the solemn language of the legal instrument, they were able and willing to pay. This is not true any longer. In some quarters the ability is lacking, in other quarters it is the will that is not there. In either case the result to the taxpayer is the same. The scene shifts from Lausanne to Washington, and so we get on with the world's

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work. It is often said that the world's return to prosperity waits on the resumption of American foreign lending. It will be a long long time before that practice is resumed on any scale. Rightly or wrongly, the American investor and the American taxpayer counted on payment : and it would be a gross perversion of truth to suggest that he is going to be pleased when he realizes that he'll never get it. Antonio, he will sadly recall, didn't pay Shylock either, in the end. May the writer of this article now add that he has knowingly exceeded the limits of good taste in what he has written ; but he considers it important, even at some risk, to correct certain exaggerated expectations of free and happy cooperation between the United States and the rest of the world as the result of Mr. Roosevelt's election. For twelve years we have tried to take an elaborate by-pass around the wreckage of the war : we have come to the end of the by-pass and it just doesn't lead out. Much of the distance travelled since 1920 must be retraced, and we must clean the wreckage in the main road, piece by piece.

Franklin Roosevelt is fair, patient, and intelligent ; he has the gift of getting men to agree. He is possibly a very great genius in the art of politics. His amazing triumph over his own personal disability is an act of character : and character can't just be ordered in packages to suit occasions. It seems quite foolish to try to predict what his specific contribution to the settlement of international problems will be. But, in general, the people of the United States may confidently entrust the next four years to a man whose courage, self-discipline and good cheer have pulled him out of his own depression and have set his feet on the way to the White House.

United States of America,
Armistice Day, 1932.

RUSSIA AND THE FIVE YEARS PLAN

I. APPEARANCE AND REALITY

OUTWARDLY Moscow has never looked so bright and snappy as it does to-day, at the end of the Five Years Plan. In street after street one finds the old cobbles replaced by shining asphalt. The shop windows in the main thoroughfares, dingy and dirty enough only the other day for a deserted graveyard, are now washed and wiped until they positively glisten. Nor are they as empty as they used to be. Tiers of vegetables—cabbages, carrots, tomatoes, beetroot, egg-plants and cauliflowers, neatly arranged in even rows—give variety and colour to the food shops. In the drapers and clothing stores garments and stuffs are neatly displayed. True, the Westerner is quick to notice the shoddy quality, the cheapness of the material, the style and the workmanship; but for Russia even such a show as this is an achievement.

Outwardly Moscow seems not only bright but happy. For the first time I found once more a semblance of the old night life. Hitherto the enjoyment of what there was of it had been confined to foreigners, but to-day Russians, too, if they have the money, are free to indulge in it. One sees, every day in the newspapers, advertisements of restaurants which keep open till the small hours and supply wine, vodka, liquor of all sorts, and hot meals. They even provide an orchestra and dancing. Last year such restaurants simply did not exist. In the dining-rooms of the leading hotels, where one hardly ever used to see a Russian, there are now crowds of them every evening. Gypsy choirs, banned a couple of years ago as a "disintegrating influence, without any positive contribution to make to the Plan" are again contributing their old liveliness to Moscow life. Even the dancing hall, banished like a

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pest, has come back. There is, it is true, only one of them at the moment—in a Moscow suburb—but it is crowded every night with young people enjoying themselves, and its success has been so colossal, that everyone is confident that there will soon be others all over the country. Theatres, operas and movies are always crammed. Time and again I have been unable to get a ticket for either the Art Theatre or the Ballet. Round the corner, by my hotel, there is a picture house, and even when it is wet, one sees hundreds of people every evening waiting their turn for a chance of admission. There have never been so many concerts and literary evenings at which professionals recite selected passages from the classics or the new Russian literature, and authors read their own works, published or not. A visit to the performance of *Hamlet* at the Vachtangov Theatre, the liveliest in Moscow, would convince a foreigner that the Russian, in spite of his troubles, enjoys a little fun as much as anyone in the world. Roars of laughter greet not only Polonius's sayings, but even Hamlet's. For in this daring rendering of Shakespeare's masterpiece, the Prince of Denmark is no longer the tall, pale dreamer, but a plump, cunning little fellow who loves nothing so much as a joke, and whose only ambition is to make fools of the royal personages, and to get the crown for himself. As interpreted by the Vachtangov players indeed, *Hamlet* is no longer a tragedy, but a lively melodrama, a stupendous, almost a hilarious, spectacle.

At every turn one finds signs of improvement in the appearance of things. On a walk round after getting back, the shops, the people, the pavements, the traffic, the amount of building, everything encouraged the impression that Moscow had become a booming metropolis, and that, here at all events, the Five Years Plan was nearing its end in a blaze of triumph.

But this impression was short lived. One evening, on the way back to my hotel, I noticed a crowd on the sidewalks of a by-street. They were lined up two or three

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abreast, some of them, tired of standing, lying about in heaps asleep by their empty baskets, others still patiently waiting on their feet. A bread queue no doubt, I thought, waiting their turn for a ration—it would have been so in an American or European town. But it was no bread queue; it was a meat one, and the people were not there for charity. They all had money, and had come not to beg, but to buy. They came early, though they knew that the store would not open for hours, so as to make sure that the meat would not give out before their turn came!

This incident was in itself enough to show up the emptiness of rash Communist boasts and dismal Capitalist warnings. Both thought in their unreflecting way when the Plan was started, that Russia, at the end of the five years, would take her place among the most prosperous nations of the earth. The Russian slogan, both for production and consumption, is "Catch up with and pass the capitalist countries." Whether they will ever do so is another question, but they are certainly a long way off it to-day. In spite of the improved appearance of Moscow—which in any case is explained by the special attention it has received as the favourite city of the Soviets—of the imposing amount of constructive work all over the country, and the continuous growth of educational facilities both in town and country, the end of the Five Years Plan finds Russia face to face with a crucial food problem—the most crucial since the days of the famine. Rations of meat and other fats have never been so meagre for a whole decade, and the prospects are anything but bright. It will indeed be no mean achievement if there is enough meat, even at the end of the second Five Years Plan, to allow of the population receiving a single portion a day.

And yet, in spite of the shortage of food, the Five Years Plan, from the standpoint of national and social development, is an astounding phenomenon, especially when one considers the conditions at the time it was started. That was in 1928, a year of trouble indeed. In her international relations Russia was in a dismal plight. England had

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broken off relations, America refused her recognition, France did nothing but sulk, Poland made wry faces, China broke into the Soviet embassy in Peking and the consulates in other Chinese towns, raided them and expelled the Soviet representatives. No nation showed the slightest sympathy, except possibly Germany and Turkey, and theirs was given *sub rosa* and in a niggardly fashion. There were no credits in sight save limited amounts from Germany and Italy. From other quarters there was no help forthcoming.

Internally the picture was no more cheerful; the Communist party was riven with dissensions; Trotsky driven out, and his followers banished to remote regions in hundreds, among them some of the ablest men in the country, orators, directors, writers, engineers and economists; fresh disruption constantly threatened from the Right; the peasantry seething with discontent and the nepmen* and the intellectuals recalcitrant—some intellectuals indeed, though a much smaller number than the hysterical Soviet press would have the world believe, were actually taking to sabotage. There was little skilled labour, few engineers with any experience in the construction of modern industrial plant, and few—very few—leaders with the capacity to manage such plant. The country itself was in a thoroughly backward state. It had barely recovered from its foreign and civil wars, its industrial output was reduced to one-fifth and its agricultural to three-fifths of normal. In a word, Russia was isolated, disunited, impoverished.

Such were the conditions under which the Plan was launched, and now that it is nearing its conclusion, it is important to understand its aims, and still more its significance.

II. THE MATERIAL ACHIEVEMENT

THE one thing that the Plan has not altered is the Russian passion for speech-making. The character of the speeches, however, and of their subject-matter, has undergone a change. The speaker may, true to his old

* Private business men.

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form, start off with a tirade against civilisation, against Trotsky, against the Right Opposition, or the Socialists of Germany and England. But these are only preliminary fireworks. The rest of the speech will be a really sober report, the explanation of some plan and its difficulties. The speeches to-day would, indeed, be very like the sort of survey that the president of a big corporation or university might make, were they less exhaustive and their literary quality less spicy. Nowadays, too, statistics figure more prominently in them than quotations from Marx and Lenin, but the statistics are no mere tables of figures. They spurt out with a fire that excites and captivates the audience. They are to the Russian, in fact, what the latest football scores or athletic records are to the sportsman, what the stock exchange news is to the speculator, or the pulse and temperature of the patient to the nurse and the doctor, or, maybe, to the relations. They bristle with hope and triumph, but they also bring anxiety, even panic.

As I write, I have before me a collection of the latest speeches, and the following figures, taken from them, will be left to speak for themselves. The original Five Years Plan postulated the construction of 12,600 railroad cars in the fifth year. Actually there were 20,000 cars built in the third year, 1931. The Plan has also done well in tractors. Production was raised to 40,000 by the end of 1931. Then, take locomotives: only 825 were to have been completed in the fifth year, but in 1931 the factories actually turned out 812. In 1913, Russia manufactured 17 million pairs of shoes, but by 1931 the figure had reached 76·8 million pairs, exceeding the estimate for the last year by 16·7 million. In 1913 she produced 27 million pairs of rubbers. In 1931 the number had grown to 53·9 million, or 2·9 million more than the programme figure for the last year of the Plan. The statistics for agricultural machinery are particularly noteworthy, as very little of it was made in the old days. For the 1931 sowing season, in addition to the 40,000 tractors already mentioned, the following pieces were turned out from the factories:—

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Grain drills	82,000	Hay mowers	21,000
Threshing machines ..	77,000	Binders	14,700
Combines	3,500	Hay rakes	930
Cotton-picking machines	1,667	Beet diggers	3,600
Tractor carts	16,500	Potato planters ..	2,500
Corn-picking machines	196	Manure spreaders ..	336
Tractor cultivators ..	4,827	Cotton planters ..	21,000

402 elevators have also been built.

In 1913 Russia manufactured 94,000 tons of soap ; in 1931 this figure had grown to 189,000 tons. And yet the demand still far outstrips the supply. The entire industrial output was supposed to reach a value of 19.6 billions in gold roubles in 1931 ; it actually rose to over 27 billions.

Ordzhonokidze, the Commissary of Heavy Industry, boasted that, even to-day, there were signs that Russia had beaten the capitalist nations in output. It took England, he said, from 1864 to 1899, that is 35 years, to increase her output of pig iron from 4 million to 9.5 million tons, and it took Germany ten years and America eight to do the same. But Russia, he said, expects to do as much in a single year. He naturally did not mention that the Russian miracle would have been impossible but for English, German and American inventions. Later on, the same orator notes that, although America had only 69 blast furnaces out of 307 working in October, 1931, Germany only 47 out of 145 in November of the same year, and England only 70 out of 400, in Russia, instead of blast furnaces having to close down, new ones were constantly being brought into use.

Other orators cheer up themselves and their hearers with further statistics. In the original scheme, for example, the Russians merely expected to reduce unemployment, but in the event, unemployment was completely eliminated in the first three years of the Plan. The working day has been reduced to seven hours in three-quarters of the factories ; primary education has become universal, and in the large towns high-school attendance has been made compulsory. In the production of oil, Russia, by the end of 1931, had far outstripped the Plan, ranking second only to the United States. She is approaching the second place

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for machinery, and the first place for agricultural implements. The most striking revolution, however—statistically, of course—has been in agriculture. Originally the Plan called for the collectivisation of only one-fifth of the peasant holdings; as a matter of fact, 60 per cent. of them have been collectivised, and these, together with the State farms, cover 80 per cent. of the total cultivated land of Russia. In other words, only 20 per cent. of the land is now farmed by individuals.

But these successes, even in terms of statistics, tell only one side of the story and they fall mainly within the first three years of the Plan—years of extraordinary effort. Since then there has been a slackening off, though construction and development have been pushed on with unabated energy. It must be remembered that the Plan laid most emphasis on the need of heavy industry as the foundation of all other industries. In heavy industry the Plan has not achieved its programme. This has happened in the case of coal, pig iron, steel and rolled steel, the four mainstays of heavy industry.

To take coal first: the original programme for 1931 was 53 million tons, raised by the revised control figures in 1932 to 83 million tons. The actual amount produced was 53 million tons. For 1932 the original plan was 75 million tons, raised by the control figures to 90 million. Actually only 47 million tons have been extracted during the first nine months of 1932, which means that the total for the year might reach 63 million tons, or about one-third less than was originally prescribed in the Plan, and about one-sixth less than the final control figure. It should, however, be remembered that only 28.9 million tons were produced in 1913.

Next, take pig iron. The original schedule was 10 million tons this year, reduced by the control figures for 1932 to 9 million tons. In all probability the actual output will not exceed 6 million tons. Again, the original schedule prescribed 8 million tons of rolled steel, reduced by the control figures to 6.7 million tons. Actually, no more than

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4,205,000 tons are expected. The original Plan called for an output this year of 10.4 million tons of steel, cut down by the control figures to 9.5 million tons. In all probability, no more than 5.5 million tons will be produced.

Since coal, iron and steel are the essential raw materials of industry, a drop in their output necessarily means a drop along a good part of the line. But the drop has been most severely felt by the automobile industry. Lack of steel is one reason, though by no means the only one, for the failure to fulfil the original programme of 130,000 cars in the last year of the Plan, or even the reduced programme of 75,000 under the last control figures. Nizhni Novgorod, the site of the new Ford factory, was supposed, this year, to turn out 30,000 cars, but only 2,400 have actually been produced in the first eight months of it. The reader must, however, bear in mind that Russia was not intended to begin constructing automobiles until the latter part of October, 1931. She made hardly any cars in 1930; she only assembled 8,550. At present the Moscow Amo and the Nizhni Novgorod plants are turning out 65 cars each a day. The Amo factory makes nothing but 1.5-ton trucks; the Nizhni Novgorod plant turns out passenger cars as well. During 1931 the output of the Amo factory was 10,757 trucks. A third factory at Yaroslavl has also begun to manufacture 5-ton trucks. Thus, although neither the original schedule nor the revised programme have been complied with, Russia, at the end of the Plan, finds herself in possession of an automobile industry with three huge factories built and equipped in the best modern style, and continuously at work.

There are various reasons for the slump in the last lap of the Plan, the principal being lack of competent labour, poor transport, bureaucratic methods, and the absence of adequate supplies. But, above everything else, there are the world crisis, and the inferior living conditions. The world crisis cut deep into Russia's income of foreign money, and this in its turn necessitated a reduction of imports and the engagement of foreign experts. Inferior living con-

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ditions have interfered seriously with the efficiency of labour, in any case none too high. In the Kharkov and Stalin-grad tractor factories, the turnover of labour personnel has been at least 25 per cent. Workers come, receive training, and then go, and new workers have to be trained all over again. This makes any programme difficult, if not impossible. A particularly bad case was given in the Moscow *Pravda* on October 16. In a group of metal factories in the Urals which employ 61,000 men, 206,000 workers have actually been engaged in the last three years, and of these 203,000 deserted! In the Don coal basin this come and go habit has become a chronic economic disease.

Nor can the Russians boast of the quality of their manufactures. Their tractors do not stand up as well as the American, though they answer their purpose well enough. Articles of everyday use are markedly inferior to those of European and American make. Russians have often asked me if I could spare them a toothbrush, as their own had lost their bristles. Their shoes, too, wear out more easily than they used to do, though their rubbers are among the best in the world. A friend told me at Kiev that he had gone into a shop to buy a pair of shoes, and after trying on a shoe told the clerk to pack up the pair, as it was a good fit. On reaching home he discovered, however, that one shoe was longer than the other. He took the shoes back, and found the clerk quite willing to change them, but on investigation it appeared that every one of the hundred pairs of the same size in stock had one shoe larger than the other! This incident is not typical of the whole shoe industry, but it shows faulty management somewhere; and the shoe industry is not the only one that suffers in this respect. Four cities, Kolomensk, Bryansk, Logansk, Kharkov, all make locomotives of the same model, size, shape, and weight (96.5 tons). Yet, for a locomotive the Logansk factory uses 130 tons of metal, the Kolomensk 125 tons, the Kharkov 117 tons and the Bryansk 127!

To take another example. In the *Pravda* of July 24 last there was a letter from Grozny, the booming oil town in

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the south. It cost millions of roubles to build the Palace of Labour there, yet, the writer pointed out, only a few later structural alterations were needed. The lavatory had no ventilation, and after rain the mud was so bad in the Palace that it was impossible to approach it. A workers' club in the same town had not a single lavatory, and workers' dormitories inadequate windows. Hardly a day passes without letters on this sort of thing in the leading Russian newspapers.

And yet, in spite of every setback and failure, taking everything into consideration, the development achieved under the Five Years Plan is astounding. The triumphs of the plants of Kharkov and Stalingrad, the American automobile factory in Moscow, the Ford plant at Nizhni Novgorod, the Dnieprostroi hydro-electric project, the mammoth steel plants at Magnitogorsk and Kuznetsk in Siberia, the network of machine shops and chemical plants in the Ural—*which bid fair to become Russia's Ruhr*—these and countless other industrial achievements all over the country show that whatever the shortcomings and difficulties, Russian industry like a well-watered plant, keeps on gaining colour, size and strength.

That is one reason why a mere statistical approach gives such a misleading idea of what the Plan is going to mean for Russia and the world. The failure of heavy industry to produce according to schedule is, in my opinion, nearly so significant as the fact that Russia has no heavy industry, which, however badly manned at the moment, has an equipment comparable to the best in the world. The Plan as a statistical formula is one thing, quite another as the symbol of a new age and a guide to a new destiny.

Viewed as the symbol of a new age, first and foremost the Plan has made Russia a predominantly industrial nation. Agriculture, of course, plays the leading part in the national economy, but the first place, in terms of value of output already goes to industry. Henceforth, in spite of mistakes and shortcomings, the world will have to reckon with Russia.

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as an industrial, and not primarily as an agricultural country.

Of even more dramatic significance is the fact that Five Years Plan has practically wiped out, individual enterprise. Industry, wholesale trade, retail trade, with the exception of the bazaars, are all now under the control of the State. Never before in history have so gigantic enterprises as those already enumerated, and thousands of giant State farms, been created and run by government. It was not easy to destroy private enterprise even in Russia. The new economic policy,* a mere concession to the private business man, like a dog held in leash, was never allowed free play. It took no little brutality to snuff the life out of it, and all that it stood for, but *nep* has now disappeared, and there is no longer any private business. The State is undisputed master of all economic activity with the exception of the 20 per cent. of the product still in the hands of individuals, and even there State discipline is so far-reaching that the farmer constantly finds himself checked and compelled to adapt himself to the national Plan.

The recent decrees allowing the individualist peasant, collectivised farmer and the *artels* of handicraftsmen to trade in the open market, do not seriously interfere with the basic principle of the Plan, for the middleman is barred and sales can only be made direct to the consumer, and no one can buy to resell, the law will deal sternly with him. It is the intention of the State to remain in control of the economic life of the country. Whether a nation's development can proceed as well under such a scheme is a question which only history can answer. But for the Russian there is no going back, as long as Russia is Russia. Individual enterprise could only return if Russia were to be conquered in war or in the event of an internal disruption, rendering it possible for her neighbours to absorb her and graft their own economy on to her. Even so, the change would be

* The new economic policy was introduced by Lenin in 1921. THE ROUND TABLE, No. 47, June 1922, p. 544.

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be effected after frightful slaughter, for neither the workers nor the new youth would acquiesce without desperate resistance.

And because Russia has become a pre-eminently industrial nation, she could, if compelled to do so, carry on her own development with her own resources, which would have been out of the question when the Plan was first started. Foreign engineers and foreign equipment were then indispensable. But she has now reached the point where war, blockade, or international boycott, all of which she used to dread more than anything else in the world, though they might hamper it, could not stop further industrial growth. She can live to-day, if need be, off her own fat.

III. THE HUMAN SIDE

BUT even more significant than these material gains is the human change that the Five Years Plan has brought. The mere word "plan" suggests a new approach to the problem of living. Hitherto man, as an individual has focussed his ambitions, tastes and ideals in a well conceived personal plan, but as a nation he has been willing to follow a policy of *laissez-faire*. He has been guided by his immediate needs. His ego has been his kingdom. Everything has begun and ended with that ego.

The Plan brings all this to an end in Russia. It envisages society in a new mould. Man's ego is no longer the centre of things, but merely an organic part of the whole, or as the Russians say, of the mass. In the basic things of life the individual can no longer separate himself from the mass without courting disaster. In all calculations to-day it is the mass that counts, and everything that man, as an individual, needs—bread, shoes, books, headache powders, museums, theatres, automobiles, highways—comes to him by virtue of the Plan, itself devised for the mass. He may cherish whatever ambitions he chooses, indulge in whatever pleasures and caprices he likes, but these must in no way

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clash with the fundamental interests of the mass. If he wants more shoes than his neighbour, or to go to the theatre more often, if he has a taste for red neckties or brown shirts, no one will stop him indulging it, provided that his earning capacity permits of the enjoyment of these things, and that the supply of goods for the nation makes them available for him.

That is why the idea of planning has loomed so large in importance in Russia. The Plan is the mainspring of everything and everybody. Whatever you do is part of it. You dig a ditch, you plant potatoes, you lift bricks, you blast rock, you study medicine—it is all part of the Plan; you buy shoes, you get pictures for a house, instal a telephone, eat canned tomatoes—it is all the result of the Plan. "Nurseries," says a poster in a village kindergarden, "should be put to the service of the Plan"; and if you read on, you find the explanation. "By keeping the children in the nurseries, mothers can make their full contribution to the fulfilment of the social programme of the Five Years Plan."

No wonder Russia is so Plan-conscious, and no wonder that the Plan has become an *idée fixe*, the purpose and the passion of the young. There is no schoolhouse, co-operative farm, or factory without a plan of its own which fits into some other plan, like a rivulet that flows into a river running to the sea; all of them in the end to take their place as part of the Plan. I have seen dances, songs, games and plays which centre round the idea of it. The Plan, indeed, has become the incentive, it takes the place of profit in an individualist society.

The Plan has also effected a real transformation in the attitude of the Russian towards machinery, a change which can be traced back to the early days of the Revolution, when the machine was already greeted as the conquering hero. But the Five Years Plan, with its vast supplies of foreign machines and the hosts that it is having constructed at home, has crystallised the idea. The old Russia scorned

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the machine. The Tzarist Government was afraid of it—the machine stirred up new wants, new ideas, new dissatisfactions. It carried with it a threat of death to autocracy. The landed gentry had nothing but contempt for it. It was a dirty vulgar thing which interfered with the ease and grace of living. The industrialists, a rising class even then, loved it, but they had neither the social standing nor the political power of the landed gentry. As though to give moral support to the contempt prevalent in good society, Tolstoi, like Gandhi to-day, denounced it as a distorter of human values, a perverter of human emotions. The machine, he declared, had made men greedy, hard and vicious, it was a weapon of torture and death.

The Revolution and the Five Years Plan have changed all that. If the welfare of the mass was the end at which the Revolution aimed, the machine is the means to that end. The whole scheme of reform for which Sovietism and the Plan stand—the reconstruction of the nation's economic life and the remaking of the human personality—depends upon the triumph of the machine. And so it has come to pass that all former objects of reverence—religion, private property, home—have lost or are losing their appeal. The machine now stands out as *the* object of veneration. It has become the great miracle, the saviour.

The discovery of the machine and contact with it, then, are changing Russian mentality. Since the beginning of the Plan ten million men and women, chiefly from the villages, have been sucked into industry; schools are springing up by the hundred all over the country with the special task of training students in the use of the machine. Books, posters, pamphlets and charts in millions are pouring out of the presses to help on the process. All the Russian public schools have been polytechnicalised. They are now known as labour schools, and in all of them manual training, locksmith, foundry and machine shop work are compulsory. The study hours are supplemented by visits to neighbouring factories, and a certain amount of

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practical work in them. All this is to develop mechanical mindedness, and to prepare the reserve of skilled workers that the factories so desperately need. And in the process the Russian too is changing. He is becoming more disciplined, more sophisticated, but at the same time more restless. The peasant, man or woman, who has been with the machine will never again be what he was before.

And so whatever the statistical results of the Plan, its moral effect is of immeasurable consequence.

IV. COLLECTIVISATION AND VILLAGE LIFE

PERHAPS the greatest political triumph of the Plan has been in agriculture, the very field in which it has suffered its most disastrous setback. The original aim was to collectivise one-fifth of the peasantry; actually three-fifths of them have been collectivised, and the process is still going on. Yet, instead of putting an end to the most perplexing and delicate problem of the Revolution—the food supply—it has aggravated it to a point which, for the time being, almost amounts to a catastrophe.

One must, of course, bear in mind the immense difficulty of giving effect to such a grandiose scheme as collectivisation, under which individual farmers pool their holdings, implements, and animals, and work the fields jointly, dividing the produce according to the quantity and quality of the work done by each. There have hitherto not been enough machines to go round, or a sufficient number of competent organisers to run the new farms efficiently, or agricultural experts to supply indispensable guidance. I have seen collective farms building huge piggeries with cement floors but no tiles underneath, thereby causing high-priced sows brought all the way from England, Germany or Poland to develop pneumonia and die. I have seen them operating massive incubators and failing to obtain a single decent show of hatchings, or if they got

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one, leaving the chickens to die of bad feeding and housing. I have seen them sowing Indian corn with grain drills as they would oats or wheat, thereby making it impossible for the stalks to attain proper growth and develop cobs. Endless blunders have been made.

But these blunders are not inherent in collectivisation. In time they will be overcome, and they certainly have not contributed seriously to the existing *débâcle*. In my judgment, collectivisation, for Russia, is a good agricultural system. It eliminates a great deal of the waste inseparable from individual holdings there—waste of seed, labour, and animal energy. It brings a power to mechanise, energise and improve Russian farming which the individual landholding system never possessed. Under proper management it would sweep away worn-out methods and worn-out conceptions. It is capable of raising the fertility of the soil to an extent unattainable under ordinary Russian conditions. The Soviets have used every kind of pressure to bring the peasant into their scheme, but I believe that, in spite of that, collectivisation is economically sound, as much so as building new schools, new factories, new homes.

The fault is not in the system, but in the reckless way in which the Bolsheviks have managed it. They have not, of course, deliberately mishandled the movement, but if they had, they could not have done it more harm. In urgent need of food for the towns, and of commodities for export in exchange for indispensable foreign currency, they have made unreasonable demands on the peasantry. Their most flagrant blunder was in the Ukraine in 1931. The Ukraine that year happened to have had an unusually fine crop, but the collections, that is, the share of the grain the peasants were obliged to sell the Government, were so drastic that at the beginning of the present year both collective farms and individual peasants were often without bread for themselves or feed for their beasts. The mortality of stock was enormous. I have never seen the figures in print, but they must have been a substantial percentage of

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the total peasant stock. Pigs and horses suffered especially. On one collective farm I found 50 pigs dead, on another 100, and on another 19 horses and 10 cows. Hardly a collective farm I visited—I was in the hardest hit area—had not had serious losses. Levies of vegetables, meat and milk products were also heavy, and in some villages the peasants had finished not only all the grain they were allowed to keep, but potatoes and beetroot as well. They were eating weed seeds and the waste products of the flour-mills. Sometimes they would even start off on long journeys to other parts of the country in search of bread.

The severe meat collection in 1931 further aggravated the crisis. There were peasants who had to give up their last cow to meet this call. They protested, but it was of no use. Left without a cow they had neither milk nor the chance of raising a calf. What is worse, many of them were, and still are, afraid of getting a new cow. Suppose, they reasoned, there is another meat collection, and the cow is taken away at the Government price? And when they do get a cow they are always worrying. Suppose, they say, we are not allowed enough grain to keep it in condition?

Then again the local officials, infected by one of those periodical epidemics of political fervour which now and then sweep the Russian countryside, proceeded to socialise the livestock of the members of the collective farms, who had been assured in 1930 that the stock they keep for themselves would not be socialised. The officials, however, did not trouble their heads about that, and in retaliation the peasants slaughtered their animals, just as they had done in 1930, when equally over-zealous officials put pressure on them to join the collectives. True, the higher authorities soon put a stop to compulsory socialisation, and the peasant whose stock had been socialised got it back, but in the meantime a number of precious animals had been needlessly destroyed! Shortage of fodder, drastic meat collections and compulsory socialisation have brought Russian livestock to the lowest point reached since the Plan was introduced.

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Nor were matters helped by the fact that the Soviets, in making these collections from the peasants, paid them a fixed price, from one-tenth to one-twentieth below the open market prices, and at the same time failed to supply sufficient textiles, tobacco, hardware, candy, sugar and other manufactured goods to meet their needs.

Naturally the peasants grew discouraged. Again and again there have been cases of sabotage, of peasants intentionally ploughing badly, disking badly, sowing thinly, just to prevent a good crop. The point has been reached where they actually do not want one, partly out of revenge and partly from sheer indifference. This, of course, is not universal, but it is quite a widespread attitude. "The land," said one Ukranian peasant, "remains here in the village, but our labour they take away, so why toil?"

In recent months the Communists have made concessions. They have opened kolhoz bazaars to enable peasants both on collective farms and individual holdings to sell their surplus produce at market prices. They have lowered the taxes, except for individualists, and they have reduced grain collections by about one-fifth, though, as against this, the crop this year is not as good as it was last. They have also begun a widespread campaign to induce factories which had not been doing so to devote part of their equipment to making goods for consumption, so that the villages may be supplied in increasing quantities with what they need. What is of equal importance, they are devising new schemes to ensure higher remuneration for the better worker, and so to stimulate the peasant to greater efforts.

These concessions have eased the tension, but they are not sufficient to revive the peasant's will to work. Only actual experience will convince him that it is safe to keep a cow, pig and chickens, and that he will be allowed to retain the bread, vegetables and milk that he requires for his own use, as well as grain and fodder for his livestock. Whether he is an individual farmer or a member of a collective, he wants a guarantee that enough of his own produce will

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be left him to enable him to live in some degree of comfort. There is no other way of reviving his morale, or of winning his support for collectivisation. Verbal promises are useless.

But if the Soviets have blundered badly on the economic side of village life, they have pushed ahead with the cultural side—I doubt if there is a single village in Russia without a school and library, however small. There have never been so many nurseries as to-day, and never, in the whole history of Russia, has there been such an exodus of young people to the technical schools and universities. The village has developed a prodigious appetite for learning, and it now has every chance of satisfying it. Indeed, the cultural advance under the Plan is the most cheering feature of Soviet life.

* * * * *

And so the Five Years Plan ends with the cultural standard of the Russian masses higher than it has ever been before, but with the standard of living lower than it has been for a decade, and, in so far as food is concerned, appreciably lower than it was at the beginning of the Plan. Cruel indeed is the price that Russia has had to pay for the first Five Years Plan. It has been a time of incalculable privation and sacrifice. But she has laid the foundations for future development, and what is infinitely more important from her point of view, she has strengthened prodigiously her fighting capacity. She still dreads attack from outside, but not with the same hysterical intensity as she used to do before the Plan. Her main task at present is to raise the standard of living of the masses. The second Five Years Plan, which will commence at the beginning of next year, will, it is promised, treble the amount of consumption goods. Certainly the Russian masses will look forward eagerly to the realisation of this promise.

Moscow.

November, 1932.

IRELAND : THE TARIFF WAR

I. THE ECONOMIC STRUGGLE

THE most striking and unanswerable commentary on the economic war between Great Britain and the Irish Free State is supplied by the trade returns of the Irish Free State for the month of August, which was the first complete month since the war began. These returns show that, as compared with August 1931, imports have decreased by £774,022 and exports by £1,890,351. The adverse balance on the month's trading was £1,433,204 compared with £316,875 for August 1931, and for the year ended August 1932 it was £16,005,141 as compared with an adverse balance of £11,960,076 at the end of August 1931. The cattle trade alone has suffered a loss of £901,616 during the month. But what is even more serious is the fact that the prohibitive tariffs on British goods entering the Free State have created a strong bias in England against Irish agricultural products which it will be difficult to remove. Two-thirds of the market for bacon and hams has been lost, and over five-sixths of that for fresh pork. The poultry trade is reduced by four-fifths and the egg trade by a third. Exports of butter fell 52 per cent. in value. If this situation continues for a few more months the Free State farmers will have lost in trade more than the total of all the disputed payments. The returns also show that only 4·8 per cent. of all exports in August were purchased by countries outside Great Britain. Our exports to these foreign countries were in fact down by £17,468 as compared with August 1931, but our imports from them show an increase of £139,067. Even Mr. de Valera himself now admits that no alternative market for our agricultural produce is to be found outside Great Britain. Figures,

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which recently appeared in the Government's own *Trade Journal*, show that the total imports of cattle into other European countries for the year 1931 are less by at least 80,000 than the total exports of Free State cattle for the first five months of this year. Moreover, these countries have all nearer markets than the Free State to rely upon. The large European countries are also more than adequately supplied with bacon, ham, butter and eggs by the highly organised agricultural countries surrounding them, and the opportunities for Free State exporters of these commodities are virtually nil, having regard to the rate of exchange and the tariff walls to be surmounted. The "unkindest cut of all" is the German surtax of 135 reichmarks per 100 kilograms on all Irish butter imported in excess of 5,000 metric tons, and even a preferential surtax of 50 reichmarks per 100 kilograms on butter within this quota.

On the day that these depressing trade returns were published the Government imposed 10 new duties on cereals which are in effect prohibitive. They include maize, oats, barley in grain, malted barley, oatmeal, hay and straw, veterinary medicines, and practically all animal foods. These new duties, and a scheme for the compulsory admixture of grain with maize, are intended to effect a big change in the system of animal feeding, and to stimulate the market for home grain crops. The proposal to mix home-grown grain with maize was unanimously rejected by an expert commission set up by the late Government, and it is viewed with extreme disfavour by all practical farmers, who believe that it will not produce a suitable food for pigs, and that it will also be a more costly mixture. The millers are equally hostile. As the pig-rearing industry flourishes principally in Munster, and the grain is grown in the midlands, they will have some difficulty in arranging for supplies to southern mills. The Government have also imposed practically prohibitive customs duties on tinned meat, eggs, and vegetables.

The immediate effect of the English duties on agricultural

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produce and cattle was practically to stop the cattle trade between the two countries, and the price of Irish cattle slumped disastrously. At the same time the Irish tariffs on iron, coal, steel and other English exports have reacted seriously on the industrial life of the country. The Ford factory at Cork has been greatly affected. The garage industry has also been heavily hit by the difficulty and cost of obtaining materials, and the virtual cessation of the purchase of cars owing to the prohibitive body tax, now reimposed, and large numbers of men have been thrown out of employment. The new tariffs in fact have created such an impossible position that the Government were compelled to make an order, obviously open to serious abuse, enabling them to issue licences to Irish manufacturers to import dutiable articles for use in their factories free of duty. Mr. Lemass, the Minister for Industry and Commerce, claims, however, that as a result of the new tariffs several new factories have been started for the manufacture of boots and clothes, and that the packet tax has resulted in the establishment of 30 new packing factories. Messrs. Fry and Cadbury are starting a joint chocolate and cocoa factory in Dublin. The railways and gas companies have been seriously inconvenienced by having to use second-rate German coal, for which they have to pay an increased price, and which is not suitable for their purpose. The Industrial Fair at Cork in the summer was a complete financial failure, and, except for the large, and artificial, influx of pilgrims to Dublin during the Eucharistic Congress, the tourist traffic has been bad.

The only redeeming feature of the situation from the farmers' point of view has been the excellent harvest. The Government's policy, to meet the situation they have created, is to make the Free State self-supporting. They propose by means of a guaranteed price to encourage the farmers to grow wheat for home consumption. Ireland once grew 641,000 acres of wheat; it now only grows 26,000 acres. Why should it not grow wheat again, they

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ask, as other European countries are doing under greater climatic disadvantages? They argue that such a scheme need not mean an increase in the price of bread or a deterioration in its quality, and that it would help, by providing additional employment, to solve the problem of rural unemployment and rural emigration. Although compulsory tillage is not proposed, Mr. Aiken, the Minister for Defence, has threatened in no obscure language that farmers who do not fall in with the Government's plans may have their lands confiscated. The weak spot in the project would seem to be the Irish farmer, who is naturally inclined to seek the more profitable, more secure, and more easily gained returns from cattle and dairy produce, and who sees his most serious rivals, the Danes, appropriating his best market and seeking to improve their trade relations with England by every possible means. Moreover, it will naturally take several years even partially to carry out these grandiose schemes for altering our agricultural economy, and meantime what is to happen to our farmers, whose sole means of existence during the interval is denied them? By the end of September the situation had in fact become so impossible, owing to the increasing difficulty of providing food and shelter for store cattle in the winter, that the Government were forced in October to pay a bounty of 12½ per cent. on all cattle and pigs exported to England, and 10 per cent. on all cattle and pigs exported to Northern Ireland; but naturally this measure, although it has stimulated export to some extent, is really only an example of the process known as robbing Peter to pay Paul.

In the final result the Irish farmer who voted for Mr. de Valera's party is now hoist with his own petard, because he has first to pay the land annuity to the Government, then to pay the English tariff, and finally, as a taxpayer, to pay his share of the bounty he receives as a farmer. He is in fact painfully beginning to realise that there is some truth in the old adage that honesty is the best policy. The virtual exclusion of foreign bacon is, however, operating

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in his favour, as this has temporarily stimulated the Free State bacon factories. There is also a bounty of 10s. a cwt. on exported bacon. As regards milk and butter, the Central Dairy Board has taken over all the butter which the creameries produce and so enabled the farmer to obtain a fair price for his milk. Much of this butter was placed in cold storage, but this process could not be financed indefinitely, and the butter is now being exported to England. Here again the loss must presumably be made good by the Irish taxpayer, and in great part by the farmers themselves, as this exported butter earns a bounty of 4d. a lb. ; but, as Dr. Ryan, the Minister for Agriculture, has recently reminded us, no war was ever won without sacrifices.

II. POLITICAL REACTIONS AT HOME

THE political reactions to Mr. de Valera's policy and the economic facts have been considerable. The big farmers, under the relentless pressure of events, have at last become vocal and begun to organise. At a large and representative meeting in Dublin on September 15, resolutions were adopted condemning the "jingo policy" of the Government, and demanding that steps should be taken to recover for the farmers their position in the British market. Steps were also taken at the same time to form a Free State farmers organisation, and Mr. Frank McDermot, T.D., was unanimously elected president. This coming politician, whose lively intervention in the opening Dail debate on the Bill for the abolition of the oath will be remembered,* may well prove to be the leader of a new moderate party which will turn its back on the barren personal animosities of Fianna Fail and Cumann na nGaedheal, and embark on a programme of national reconstruction based on love of Ireland rather than hatred of England. His speeches

* See THE ROUND TABLE, No. 87, June 1932, p. 513.

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indicate a clear constructive mind, and the low personal abuse to which he has been subjected by Mr. Sean McEntee, the Minister for Finance, proves that what one may call "the old gang" are already jealous of his success and alarmed by his honest criticism. At the meeting referred to, he pointed out that the plain man found it difficult to understand why we should claim the benefit of the Home Rule Act of 1920 as regards the land annuities but not be prepared to accept liability for our share of the national debt it also imposed. It was a long time before it occurred to Mr. de Valera to make this claim, and longer still before he made it part of his policy. As regards the national issue they could, he declared, never get rid of partition until quarrelling with England had definitely and finally stopped, and whatever was to be said in favour of leaving the British Commonwealth, there was nothing to be said in favour of staying in it whilst suffering the disadvantages of being outside. It was like prohibition in America which keeps the country only nominally "dry" while actually "wet," impoverishes the Exchequer, and glorifies illegality. We were not, like other nations, forced to concentrate on the home market because our exports were shut out of any other. From our geographical position and our importance as customers we ought to get the cream of the English market. Mr. Norton, the leader of the Labour party, had made it plain that he regarded the present situation as a heaven-sent opportunity for fastening extreme State socialism on this country and making us all slaves of a bureaucracy on the Prussian model. This was what we were heading for, if we were taken in by the current cant about the duty of good Irishmen to stand firmly behind the Government in their conflict with a foreign nation.

At a subsequent convention in Dublin on October 6 the National Farmers and Ratepayers League was duly launched. Its objects, as defined in its constitution, are to promote the interests of agriculture and to give the farmers the power to mould government policy ; to restore and

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develop overseas markets while building up the home market ; to reduce public expenditure ; to maintain the rights of individual liberty and ownership ; to get rid of the bitter memories of the civil war, and to promote good feeling between all classes ; to encourage a friendly attitude towards other countries, and obtain a fair and honourable settlement of the disputes at present affecting the country's export trade ; and to abolish partition by abolishing the animosities which are the cause of it. Its membership is open to all Irish citizens who accept the principle that the Irish Free State is a sovereign and independent nation and who are in favour of the League's objects. It will be seen from these declarations that Mr. McDermot is the only Free State politician who has approached the question of partition in a rational manner and formulated a new constructive economic policy based on the real needs of the agricultural community.

Throughout the entire country large numbers of farmers have refused or neglected to pay their land annuities.

But this revolt of the farmers is not the only striking reaction to Mr. de Valera's policy. Since his Government came into office the Irish Republican Army has been definitely tolerated and encouraged. Mr. de Valera has even stated that, as long as they do not publicly parade their weapons, they will be left alone. One portion of this organisation is believed to support Mr. de Valera, but another and more extreme wing (which controls the official newspaper) definitely propound communistic doctrines. They demand that there shall be no bargaining with England, the immediate proclamation of an Irish republic, the disbandment of the whole C.I.D. force, the taking over of the banks by the Government, the forcible division of the large farms amongst landless men and the dismissal of the present heads of the civil service, whom they accuse of being pro-English. Emboldened by immunity from prosecution, their followers throughout the country embarked during the summer on a definite cam-

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paign of petty outrages, such as attacking lonely houses, cattle driving, and a calculated interference with the right of free speech designed to intimidate anyone who wished to criticise the policy of the present Government, and eventually to prevent a free election. This campaign culminated at the end of August in the occupation of a private residence known as Donamon Castle, County Roscommon, as a training centre by a party of the I.R.A., who, however, left again after a few days, apparently under pressure from the Government or their own organisation.

There can be little doubt but that this policy would have achieved its object if allowed to go unchecked. However, this was not permitted, and early in August the Army Comrades Association (a benevolent society, composed of ex-members of the National Army) extended the scope of its operations to resist the spread of communistic principles and to protect the right of the people to free speech, a free franchise, and a free press. At the same time it opened its membership to any persons who agreed with its aims, and pledged its members to respect the law and assist the services of the State. This new development has been a complete success, and already some 30,000 members have been enrolled, or more than three times the estimated number of the I.R.A. On several occasions the members of the Association have intervened most effectively to prevent interference with free speech at meetings of Mr. Cosgrave's party, and there can be no question that some such disciplined organisation was essential unless we were prepared to face chaos and outrage during the coming winter. Its leader is Dr. T. F. O'Higgins, T.D., a brother of the late Kevin O'Higgins, who is a member of the Cosgrave party in the Dail, and was formerly head of the Free State Army Medical Service. He possesses a great deal of his brother's courage and ability, and is not likely to be deflected from his course by threats or intimidation, although he has already experienced both. The new

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organisation is disciplined, but so far officially unarmed, and it contains many brave and determined men whom Mr. de Valera or the I.R.A. will not readily provoke to action. The Government, having countenanced the I.R.A., cannot logically take any steps against the Association, but their annoyance at this new development is best shown by the impotent abuse they have showered on its organisers. The I.R.A. is even more annoyed, and its newspaper, *An Poblacht*, recently published a placard which read: "Put O'Higgins in hospital," the double meaning of which was only too obvious. Some of their own followers have, however, been lately placed in that position at Kilrush, when two prominent members of the I.R.A., Messrs. George Gilmore* and T. J. Ryan were wounded in a fracas with certain members of the detective force. As a result of statements made by the wounded men, they were released from custody, the charges against them were withdrawn, and a sworn inquiry was held by a special commission into the conduct of the C.I.D. men, two of whom, owing to the findings of this Commission, were subsequently dismissed from the force.

We seem indeed to be rapidly moving towards that state of dual power which Trotsky, in his history of the Russian Revolution, rightly describes as a distinct condition of social crisis and a precursor of civil war. It is not to be wondered at that the *Poblacht* openly boasts that "Cosgrave's rule is as dead as the Tsar's, and Kerensky in power." The Labour party apparently agrees with these sentiments, because it continues to put unremitting pressure on the Government. In a recent declaration of policy, issued on September 13, it states that it is now to be tested whether political independence is to be nullified by fiscal dictation from Britain, or whether political freedom will be fortified by a greater measure of economic self-reliance. It then proceeds to ask some embarrassing questions. What do the Government propose to do to

* See THE ROUND TABLE, No. 86, March 1932, p. 375.

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supply the people during the autumn and winter with what they need, and to provide safeguards against the occurrence of a similar crisis in the future? To consider the problem as one involving simple and temporary readjustments of normal trade, commerce, and economic relations would, it suggests, be utterly futile. The alternative is to pursue a determined policy of rapid reconstruction of the whole economic system, based on the principles of economic socialism. It is admitted that this will involve a good deal of dislocation of the ordinary processes of trade, but individual interests must suffer when a nation determines to defend itself. Amongst the suggestions for immediate action are: Guaranteed prices for cattle and crops, loans to farmers for the payment of wages, restriction of imports to essentials, reductions in the hours of labour in industry, no reduction in civil servants' pay, the division of land among uneconomic holders, eventual nationalisation of the railways, and control of essential commodity prices.

These demands are probably inspired by Senator Thomas Johnson, a doctrinaire English socialist, who is the brain of the Labour party, and who envisages the adoption of some such policy when Mr. de Valera finally comes to grief. The Labour party, although it talks big, has, however, no real intention of taking serious action against the Government, for it has now burnt its boats and must sink or swim with Mr. de Valera. Its leaders are well aware that a party which has progressively dwindled at every election since the Free State was established, and now has only seven members in the Dail, cannot reasonably expect to survive another election in a country where Labour voters are more interested in national than social questions. They will therefore do nothing to hasten the day of judgment. That Mr. de Valera's Government also realise this is shown by their refusal to nationalise the railways and the appointment of a commission to revise and reduce the salaries of the civil service. Mr. Norton, the Labour leader (who is

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an ex-postal official) will naturally hear more of this from his supporters. He has recently been more critical of the Government, who, he declares, are making the big mistake of trying to regenerate and develop industry by means of capitalism plus tariffs, but that the only thing tariffs would lead to was poverty and misery.

Whilst these developments have been taking place the Cumann na nGaedheal party has not been silent. Speaking in Dublin on August 23, Mr. Cosgrave declared that no hope lay along the line of legal argument for the retention of the land annuities. The successive Governments with which he had been associated were fully satisfied, after obtaining the most competent legal opinion available, that the annuities were in accordance with Free State law, applicable only to the discharge of interest and sinking fund on the land stock which represented the advances made to tenant purchasers. The so-called "secret agreement" of 1923 saved the Irish taxpayer the very considerable expense of a new department of State, and imposed on the British Government an annual liability of nearly £1,000,000 in respect of bonus and excess charges, which has been borne ever since by the British taxpayer. The Dail, fully aware of the provisions of that agreement, voted the necessary money to implement it, and passed Section 12 of the Land Act of 1923 to enable the agreement to be legally carried out. Throughout, his Government had acted in strict accordance with their legal obligations, and in their view the soundness of the opinions given to them remained entirely unimpaired. Even if the de Valera Government were to repudiate the agreement, they would still be bound by the existing Free State law to apply the annuities in discharge of the interest and sinking fund payments, and could not lawfully retain them as revenues of the State. Mr. de Valera's attitude was good politics but bad law, and worse morals. If, however, Great Britain could get a remission of her war debt, the liability she undertook under the agreement of December, 1925, might

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be reduced, and a case arise for the remission of the land annuity payments.

Again in Dublin, on September 15, Mr. Cosgrave pointed out the chances that had been lost by the Government. The country as a whole, he said, wanted the economic war to cease, and delay in the matter was calculated to lead to a hardening of the attitude of both sides. The material loss and spiritual degradation in which the nation had been involved by the incompetent manner in which every item of the land annuities dispute had been handled by the Government was now apparent. If everything worked out as the signs then foretold they would find themselves in the New Year with the British markets regulated by one group of preferences very decisively in favour of the Dominions, and by a second smaller preferential tariff decidedly in favour of Denmark and the Argentine. The Free State would not be found in either of these categories. In that trade race they would be among the "also rans." The Ottawa Conference, he said, presented the chance of a nation's lifetime. For the first time a Government of the British people had been found willing to impose duties on foreign foodstuffs. To this Conference the Government decided to send an Irish delegation. They went unprepared, and returned empty handed. Not merely had they failed to influence the course of the Conference in favour of the Free State, but, worse still, they did not prevent it running definitely against their country, to its immediate harm, and prospectively to its permanent injury. Taxation was, he pointed out, never higher, the Government were separatists who won't separate and economists who won't economise. When the farmers had been beggared Fianna Fail and the Labour party would disclaim all responsibility. Farmers who had capital found it sterilised and their title to the lands they had paid for, and their forefathers fought for, was now in jeopardy. His policy, added Mr. Cosgrave, was that the land annuities were, according to law and justice, properly due to those who lent the money to the

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farmers to purchase their land. They wanted goodwill and preference in the British markets to secure a ready sale for their goods. Could it be secured ? Would negotiations to that end receive favourable consideration ? They had it on the authority of British Cabinet Ministers that they were desirous of a settlement. The time was surely ripe for the great voice of the people to ring out " Let us get down to business."

This powerful and outspoken speech so enraged the Fianna Fail party that Mr. de Valera's paper, *The Irish Press*, in a leading article, accused Mr. Cosgrave of making treasonable statements, and asserted that under the terms of the Public Safety Act, which his own Government passed into law last October, he might find himself prosecuted before a military tribunal. Nobody, however, took this outburst seriously, as Mr. de Valera is not likely to be guilty of the supreme folly of making Mr. Cosgrave a political prisoner, or, worse still, failing to do so. Naturally, these threats had no effect on Mr. Cosgrave or his supporters, who have since repeated their statements. And a prosecution of this nature could not stop at Mr. Cosgrave, for even people who have nothing to do with politics have not hesitated to express the alarm to which the Government's policy has given rise. No less a person than Cardinal MacRory, the Catholic Archbishop of Armagh, speaking at Slane on August 15 in the presence of Mr. de Valera himself, declared that it was a sin and a shame that the Anglo-Irish tariff war should be allowed to go on without further attempts at settlement ; and he hoped and prayed that some means might speedily be found to end a situation which was as discreditable as it was deplorable. It is worth pointing out to the people who, twenty years ago, made the political world ring with the catch-cry " Home Rule means Rome Rule," that the Cardinal prefaced his remarks with the statement that he must be careful of everything he said, and that his advice apparently fell on deaf ears. It is an interesting and not altogether satis-

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factory change to find that the Church has ceased to exercise any substantial influence in Irish politics, because our people are not yet politically stable enough to dispense with the generally wise and conservative guidance of their priests.

III. POLITICAL DEVELOPMENTS ABROAD

MR. COSGRAVE'S statement that the Free State delegates returned from Ottawa empty handed was not strictly accurate. An agreement with Canada secures for all Canadian manufactured goods imported into the Free State the benefit of the lowest rates of duty accorded to similar goods from any other country, and vice versa. At the opening meeting of the Conference Mr. Sean T. O'Kelly, Minister for Local Government, and the principal Irish delegate, said that the Free State realised the gravity of the present situation and entered the Conference in a spirit of co-operation and with a desire for a trade agreement, or a particular agreement, when the latter would be to the advantage of the parties. Special difficulties had arisen, he continued, affecting 85 per cent. of the external trade of the Irish Free State, which might involve substantial changes in the form and direction of their trade as well as in the internal economy of the Free State. Apart from these difficulties, the outlook of the Free State was unlike that of other countries. Their economic development had hardly begun. They were engaged in building up the elements of economic life, and it was, therefore, difficult to see the lines on which their contribution to the common endeavour must proceed. Their aim was to provide such economic conditions as would enable the largest number of their people to live in peace and comfort. They were the one country in Europe whose population had steadily decreased for a century, and they sought first the interests of their own people. Any acceptance of general

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principles must be governed by the degree to which they would serve that end.

This very moderate and reasonable statement of their Government's position was the Irish delegates' principal contribution to the public debates, and, as was anticipated, in the absence of agreement with Great Britain, "the subsequent proceedings interested them no more." But if no agreement with Great Britain was arrived at, other Dominions have secured many concessions in the British markets at the Free State's expense, concessions which may well deliver a final blow to the Free State farmer. Nevertheless social intercourse during the Conference established friendly relations between the British and Irish delegates, and had Messrs. O'Kelly and Lemass been plenipotentiaries it is possible that something might have been achieved to bridge the difference between the two countries. Mr. de Valera, however, controlled the situation, and his counsel over the transatlantic telephone prevented the Irish delegates from straying from the straight and narrow way. One of them was credited with the intention of resigning if Mr. de Valera did not favourably consider the proposals for settlement which were undoubtedly informally discussed at Ottawa, but his resolution seems to have evaporated on his return to the different atmosphere of Dublin.

In the meantime Mr. de Valera's pronouncements indicated no change of mentality. On August 5 the Dail passed a government estimate for £2,000,000 without receiving any information as to where it was to be obtained, or the exact purposes to which it would be applied. Speaking in this debate, Mr. de Valera purported to define his attitude towards the question of a republic, and, as the occasion was a good example of the cloudy language in which he excels, his words are worth quoting verbatim :

It has (he said) been said that I am not a republican at all. If people want to know my own attitude, I say that I have always striven at all times to secure the right of the Irish people to determine freely for themselves what should be the constitution of their

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government and their relations with outside States. To-day the Irish people could freely make that choice. I have never had a particular fetish for any form of government. I stood for the republic because in the face of armed resistance the Irish people chose a free government. Till the next election the constitutional position we find ourselves in is the one we are prepared to abide by. What the issue will be at the next election remains to be seen. One thing I am certain of is that if my own aim was to get finished with any connection with Britain I should welcome such action as the British have taken in this dispute.

It will be observed that this declaration avoids the real issue and leaves Mr. de Valera free to repudiate the republic if he so desires. Speaking at Drogheda on August 22 he made a further illuminating statement, that they hoped to unite the people so that all sections should be free without any barriers or tests in the way, to elect their representatives, and that the national leadership for the time being should be given to those having most power but that the national leadership should be in the hands of those who were elected by the majority of the people's representatives!

In the meantime Sir Thomas Inskip, the British Attorney General, in an important speech on August 4, had clearly indicated the position of his Government. The real significance, he said, of the attempt to abolish the oath lay in the fact that it was an undoubted breach of the Treaty. The very existence and status of the Free State depended on the Treaty. To abolish the oath without the consent of the British Government was to repudiate the Treaty and no one could be blind to the consequence of that step. After outlining the British position as regards arbitration in the matter of the land annuities, he proceeded to say that Mr. de Valera was not prepared to negotiate or even to maintain some sort of direct contact until the British duties were withdrawn. Such a demand was clearly unreasonable, unless the *status quo*, which he was the first to disturb, was restored in its entirety. Failing arbitration before an Empire tribunal, the Government

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were willing to negotiate either as things then were or on the footing of a complete restoration of the position as it was before Mr. de Valera impounded the annuities. Talk without some prospect of finality was futile. It was not money that stood in the way of peace. There was something bigger and deeper. Did Mr. de Valera want to be a partner in the Empire, or was he pursuing the will-o'-the-wisp of a republic? If there could be a clear and sincere declaration of the desired intention of the Free State to stand within the Empire on the basis of their constitutional position and in a spirit of loyal partnership no annuities or debts could cloud the prospect. This straightforward declaration, however, evoked no sensible response whatever from the Free State Government. Mr. de Valera and his colleagues, in a series of die-hard speeches, reiterated their refusal to arbitrate, except before an international tribunal, or to negotiate, unless there was a tariff truce.

The pressure of economic facts and their political reactions were now, however, beginning to tell, and, in the middle of September, Mr. de Valera sent a brief communication to the Dominions Office, suggesting that, pending negotiations, the annuities might be put into the custody of the Bank for International Settlements. The British Government replied that Mr. de Valera's proposal did not affect the main issue, and that the *bona fides* of the Free State Government's suspense account had never been in question. Mr. de Valera, it was pointed out, had made no suggestion as to what was to happen to the annuities eventually. The British Government were, however, always willing to consider any further proposals, provided that they held out some prospect of a speedy settlement.

On October 3 the friction between the Free State Government and Mr. James McNeill, the Governor-General,* reached a somewhat startling dénouement.

* See THE ROUND TABLE, No. 88, September 1932, p. 768 *et seq.*

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It was officially announced that, in accordance with advice tendered to His Majesty by Mr. de Valera, the King had approved of Mr. McNeill relinquishing the office of Governor-General of the Irish Free State. The considerable period which had elapsed since Mr. McNeill published his correspondence with Mr. de Valera* was no doubt explained by the fact that Mr. de Valera must have thought twice before he moved in this matter, for it compelled him to approach the King, and confronted him with the difficulty of appointing Mr. McNeill's successor. Moreover, it is obvious that His Majesty must also have hesitated before dismissing a representative whose real offence was that he justly resented the humiliation to which he had been subjected. But, under the procedure laid down by the Imperial Conference of 1930, Mr. de Valera was entitled to approach His Majesty direct, and the latter was bound to act on the advice tendered. It was, of course, obvious since Mr. de Valera's Government came into power that the earliest possible opportunity would be taken to get rid of the Governor-General, whose position they regard as an expensive anachronism. The absurd lengths to which they were prepared to go were well illustrated during the Dublin Horse Show, when the spectacle was witnessed of an English colliery band playing the Free State National Anthem in honour of the Governor-General, because the Government would not allow the Free State army band to do so—a situation to which it would require a Gilbert to do justice. In any case Mr. McNeill's term of office would have expired in February. His summary dismissal indicates once more the real issue that lurks behind the policy of Mr. de Valera's Government, namely, the gradual severance of all constitutional links with the British Commonwealth. As the British Government are apparently aware, this, and not the land annuities, is the real question to be decided. Mr. McNeill's removal has also proved how free

* See THE ROUND TABLE, No. 88, September 1932, p. 769.

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the Free State Government is to fashion its policy without outside interference. Mr. McNeill will take with him into his well-earned retirement the good wishes of every honest Irishman, for he has discharged his duty with ability, tact, correctness and dignity. The manner of his going, as a fearless gentleman, has been his greatest distinction. Whether Mr. de Valera will avoid the nomination of a successor to the office by allowing the Chief Justice to fulfil its functions on commission, as he is legally entitled to do for a reasonable time, or nominate one of his more moderate followers remains to be seen. It is not at all likely, as has been suggested, that he will nominate himself, as this would finally damn him in the eyes of the extreme Republicans, and place him in a position resembling that of Pooh Bah, for, as President of the Executive Council, he would have to advise himself as Governor-General.

On the same day as the announcement of the Governor-General's removal it became known that Mr. de Valera had asked Mr. Thomas to see him when he passed through London on his way back from Geneva, and at this meeting, which took place on October 5, it was agreed to adopt the suggestion previously made that the question of the land annuities and other disputed payments should be made the subject of negotiation between the two Governments, but that meanwhile there was to be no alteration in the *status quo* either as regards the land annuities or the duties on imports into each country. Until this conference Mr. de Valera had absolutely refused to open negotiations unless the English retaliatory duties were first removed. This change of attitude, and the fact that he had taken the initiative in suggesting negotiations, seemed to indicate that some influence had been brought to bear upon him in Geneva, or perhaps, though it was less likely, that he had at last begun to realise that, whilst he was arguing over the shadow of political independence for the Free State, the substance of its economic prosperity was disappearing.

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It was obvious at all events that the informal conversations at Ottawa had not been fruitless. Mr. Cosgrave, on his part, pointed out that settlement by negotiation was the policy that his party had consistently advocated from the beginning of the dispute. They hoped that the negotiations would be successful and that Free State produce would obtain whatever trade preferences were extended to the other members of the Commonwealth.

Mr. Thomas, for his part, speaking at Newport on October 6, proclaimed the goodwill of the British people towards Ireland and the British Government's desire for peace, but he made it clear that it must be a lasting and honourable peace, and above all a peace which established the fundamental principle of the sanctity of agreements. Although they met to discuss the present financial differences, the British Government representatives would be bound always to keep in mind that behind these financial questions, important as they were, indeed bound up with them, were still wider issues. These were the obligations under the Treaty settlement of 1921 and the future relations of the Irish Free State with the British Commonwealth of Nations.

On the same day Mr. de Valera told a journalist in Dublin that the question of the Free State remaining within the British Commonwealth was not at issue in these negotiations. It was obvious from these two statements, and Mr. de Valera's previous utterances, that the chance of the negotiations succeeding was slender, and no surprise was felt when it was officially announced after two sittings that it had been found impossible for the conference to reach an agreement.

The Free State delegates were Mr. de Valera, Mr. Sean McEntee, Mr. James Geoghegan, K.C., and Mr. Conor Maguire, K.C. It will be noticed that neither Mr. Lemass nor Mr. O'Kelly, the Free State delegates to Ottawa, were among them, and it may legitimately be

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concluded that Mr. de Valera did not desire their presence, or that they avoided what they knew would be a futile discussion. The British Government was represented by Mr. Thomas, Mr. Chamberlain, Lord Hailsham, Sir John Simon, and Sir Thomas Inskip.

On October 18 Mr. Thomas told the House of Commons that the case of the Irish Free State delegation was presented from the historical, technical and legal points of view, and directed to three main issues. First, they denied the validity of the agreements under which the payments were claimed. Second, they asserted that no ultimate financial settlement between the two countries was ever made. Third, on this basis they claimed that a new settlement should be made covering all financial issues. In this connection they put forward claims not only in respect of pre-Treaty matters, such as the alleged over-taxation of Ireland since the Act of Union in 1801, to the extent of some hundreds of millions of pounds, but also in respect of matters arising since the Treaty, including an unspecified loss said to have been sustained in consequence of England's departure from the gold standard. As Mr. de Valera would neither admit the validity of the previous agreements nor submit the issues to the arbitration of an Empire tribunal the discussions came to an end. Speaking in the Dail on the following day Mr. de Valera said that the British Government were not prepared to admit the claim of the Free State to justice. It was possible that if they had gone to them in the rôle of beggars, hats in hand, asking for consideration and charity, there might have been a disposition to make minor modifications and some mitigation, but simple justice they were not prepared to concede. The British Government took their stand on the secret documents of 1923 and 1926 and refused to budge. The Free State Government believed that these payments were neither legally nor morally due, and in that belief they proposed to defend their rights. He had never denied that the tariff war, which was evidently bound to

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go on, was sure to impose considerable hardship on their people, but he believed that the re-ordering of their economic life, which the necessity for meeting this war would bring about, would in the long run relieve them from a position of dangerous dependence.

It is obvious from these statements that Mr. de Valera can have had no serious intention of coming to any agreement when he requested that negotiations should be reopened, and that he is still discussing the relations between the two countries as if the Treaty of 1921 had never been made and Mr. Cosgrave's Government had never existed.* It is unfortunately only too clear that further negotiations are impossible, and that things must continue to drift until either economic disaster overtakes the Free State, or Mr. de Valera's Government is removed from power by the electors or the I.R.A. The latter alternative would undoubtedly have taken place before now but for the existence of the national army, which will stand no nonsense. The concrete results of his policy will not be obvious to the agricultural labourers and small farmers, who are his chief supporters, until next spring, when hiring agreements are made, and the farmers are faced with the necessity of reducing the number of their employees.

At the moment three by-elections are pending, two of them in constituencies in which the Fianna Fail party and Labour combined had a majority at the last election, and they should throw light on what the people are really thinking, always provided that organised intimidation does not prevent them from recording their votes. It is even now certain that all but the more rabid and purblind of his supporters are beginning to realise at last the price that must be paid for Mr. de Valera's leadership. He is a good specimen of that most dangerous phenomenon—the schoolmaster in politics. He can lecture but he cannot negotiate, and his enthusiasm for abstract propositions

* See THE ROUND TABLE, No. 88, September 1932, p. 751.

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prevents him from facing realities. Whoever else may be wrong he is always right. To celebrate the failure of the London negotiations his Government have imposed 33 new duties on commodities ranging from camisoles to coffin plates, and from Christmas stockings to tombstones. Even in death we must continue to pay tariffs. No doubt as a mark of good will imperial preference is still being granted, even when the duty is 100 per cent. ! As the Ottawa Agreements Bill, which is under discussion in the House of Commons, provides that free entry for Irish Free State goods will cease as from November 15, the flat rate of 10 per cent. *ad valorem* will then apply to all Irish Free State goods not included in the free list of the Import Duties Act. On November 9, by British Treasury Order the special duties on imports of live animals from the Free State were increased from 20 to 40 per cent., and on other agricultural produce from 20 to 30 per cent. The reason given for this increase was that the existing duties were not sufficient to make good the loss which British revenue had suffered owing to the failure of the Free State Government to fulfil its obligations, but, as the effect of this increase will be virtually prohibitive of Free State agricultural imports, it may be surmised that these duties which mean the ruin of Irish agriculture are really imposed as a protective measure. How the heavy financial losses which must now be faced are to be met, no one knows, but obviously the land annuity fund and the long-suffering income tax payer will both be raided in due course.

To placate the extreme element a Bill has been introduced to provide pensions for the members of the I.R.A. who fought against the Free State during the civil war of 1922-23. In fact, to conspire against the State will soon be one of the most remunerative occupations open to a citizen of the Free State.

On the same day as the duties were raised, Mr. J. H. Thomas repudiated an imputation by Mr. de Valera that England had tried this method because it suited her for

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other reasons, and that she wanted to keep her market to herself.

I not only (said Mr. Thomas) repudiate the implication, but I repeat again that we wish nothing but the well-being of the Irish Free State. We welcome and desire them as co-equal partners in the British Commonwealth. If to-morrow Mr. de Valera and his Government were to recognise frankly and fully that there is in existence an agreement legally and morally binding, not only do I say on behalf of the Government that these duties will be removed, but I can, and do, say that we will be prepared at once to enter into trade agreements whereby the Irish Free State would enjoy, and enjoy immediately, as we want her to enjoy, all the advantages of the Ottawa Conference and all that it means.

It is difficult to reconcile the personality of Mr. de Valera as displayed in London with that which appeared at Geneva. As President of the Council of the League of Nations he opened the League Assembly on September 26, and, as a candid critic, delivered a better speech than any of his predecessors. Its importance, as Lord Cecil afterwards said, was not only that it stated the case with great force, but that it stated clearly and unmistakably in the League Assembly what all the delegates knew was being freely said outside it. Although Mr. de Valera was careful to let it be known that he would not make the orthodox speech prepared by the League Secretariat, his address is so unlike his usual turgid utterances that one would be justified in believing that some competent, clear-thinking person in the Free State Ministry for External Affairs was responsible for its composition, or certainly for its revision. His speech was inspired by a true international spirit, and he worthily reaped the harvest which Mr. Cosgrave, in spite of his former objections and criticisms, had sown. It is a tragedy that his mental blindness prevents him from applying the principles which he enunciated at Geneva nearer home.

The Irish Free State.

November 1932.

INDIA : THE REACTION TO THE COMMUNAL AWARD

OUR last article from India, which was dated July 23, related to a comparatively uneventful period.* The chief features were the continued decline in the strength of the civil disobedience movement, and the accomplishment of a good deal of useful but not very spectacular preparatory work in connection with the constitutional reforms. The period now dealt with—that is to say, the months of August, September and October—seems by contrast crowded with important and interesting developments. Civil disobedience, it is true, has been definitely in eclipse, and, except for the continuance of terrorist outrages in Bengal, nothing of much consequence has occurred in the administrative sphere proper. But the kaleidoscopic alterations in the general political situation have been intensely interesting to watch, and in retrospect have provided much food for profitable reflection on the main problem with which the minds of thoughtful observers out here are exercised—that is, whether or not it will prove possible, during the very critical years immediately before us, for the structure of Indian civilisation—an immense, complex, and nowadays highly unstable affair—to withstand without disintegration the far-reaching changes to which it will be subjected as a result of the introduction of the constitutional reforms.

I. THE RECEPTION OF THE AWARD†

OUTSTANDING among the events of the last three months has been the publication of His Majesty's Government's decision on the communal problem, and the

* See "India : A Less Tense Quarter," *THE ROUND TABLE*, No. 88, September 1932, pp. 819-838.

† A summary of the award appeared in *THE ROUND TABLE*, No. 88, September 1932.

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series of first-class political issues which this has raised. There is no need at this stage to recapitulate in detail the reasons which finally led the British Cabinet to arbitrate on what they had hitherto treated as essentially an Indian domestic issue. It will be sufficient to remind the reader that from the time when the communal problem first came prominently to notice as the chief obstacle to Indian constitutional advancement, during the 1930-31 session of the Round Table Conference, the British Government made it quite clear that in their view it was a matter which should be disposed of by the leaders of Indian political opinion themselves, since no new Indian constitution based on outside arbitration with regard to the representation and protection of the various communities would prove natural or satisfactory. Despite this, however, the problem proved completely insoluble in this country, irrespective of whether a settlement was attempted only by negotiations between representatives of the soberer schools of India thought which had been represented at the first session of the Round Table Conference, or by co-operation with the Indian National Congress. Between January, 1931, and January, 1932, Mr. Gandhi and the other leaders of the Congress were at liberty, and such attempts as they made to devise a settlement, either in this country or in London during the second session of the Round Table Conference, were entirely fruitless, and indeed appeared to render the problem even more difficult than before. After the end of the second Conference in London, the task of disposing of the communal question—without which it was by this time obvious that no further progress with the task of framing a new Indian constitution would be possible—was entrusted to the Consultative Committee of the Conference in India; but after a few desultory and inconclusive discussions on the subject this body gave up the attempt altogether, and decided to appeal direct to the British Government to provide a solution. As nothing further in the way of constitutional work could be done without some settlement, the latter reluctantly came to the conclusion that, in the circumstances, they

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ought to undertake the responsibility of mediation, and indicated that they hoped to announce their decision some time during the course of the summer.

By the end of July, when our last article was written, speculations regarding the nature of the forthcoming announcement were already growing in volume, and in parts of the country there were signs that the continued uncertainty on the subject was causing an alarming increase in communal animosities and suspicions. During the first three weeks or so of the period covered by the present article these tendencies were further accentuated, and in the Punjab, particularly, feeling began to run so high that the authorities had reason to fear extensive outbreaks of communal disorder. Relations between the Moslems and Sikhs were especially strained, and for ten days or more reports were daily received of Sikh demonstrations and meetings held to protest against the possibility of the Moslems being granted a majority in the province, and of Moslem counter-meetings to protest against the possibility of their being deprived of one. The atmosphere was such that at any one of these gatherings some trivial incident might have led to a breach of the peace, which might well have given rise immediately to a series of communal riots throughout large parts of the province. Particularly disquieting was the endeavour of certain Sikh organisations to enrol volunteers to protest against the possible establishment of what they described as Moslem *raj* in the province. A move was actually initiated to enrol a hundred thousand men for this purpose, and the Sikh *Khalsa* announced that its members would resist to the last man any attempt to establish a Moslem majority. The Moslems, on the other hand, were equally emphatic that they would refuse to tolerate any arrangement which reduced them to a position of numerical inferiority to the other communities in the new Legislative Council. "The Sikh agitation," declared Sir Muhammad Iqbal, "encouraged as it is by the Hindus, is making the Moslems seriously apprehensive of domination by a communal majority." Captain Sher Muhammad

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Khan, of Domeli, stated that the Moslems would refuse to take lying down any further encroachment on their rights, and would stand by the minimum Moslem demands as incorporated in the Minorities Pact. Especially significant was the declaration of Malik Barkat Ali, a member of the "nationalist" Moslem school of thought, that the Sikh leaders who opposed on so-called nationalist grounds the Moslem claim for a statutory majority in the Punjab, were really at heart communalists, since by this means they were attempting to secure solely for their own community advantages out of all proportion to its position in the body politic. At Amritsar during this period, a congregation of 50,000 Moslems, after the Friday prayers in the *Idgah*, assembled to pass resolutions to the effect that the Moslems would never submit to any constitution under which they were deprived of their right to a majority in the Punjab, and that were this done, they would refuse to co-operate in the working of the reforms. So serious did the situation become in the larger towns that the District Magistrate of Lahore had, at an early stage of the agitation, to issue a notice warning editors of newspapers against publishing any article likely to provoke communal ill-feeling. On August 13 the discussions, which had been in progress for some days previously in Simla, between responsible Moslem and Sikh leaders who were anxious to devise some means for decreasing communal tension in the province, definitely broke down, and several Sikh leaders of importance publicly announced that they would rather see the project of establishing provincial autonomy under the new constitution abandoned altogether than that the Moslems should have a majority over other parties in the Legislative Council. There was also a good deal of rather wild talk in Sikh circles of their community endeavouring to secede from the Punjab altogether. The Punjab Hindus throughout strongly supported the Sikhs in the attitude they had adopted, and although it was in this particular province that the atmosphere was most electric, the situation was far from easy in many other parts of the country, since both Hindus and

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Moslems generally were in a jumpy and excitable state, and any small local incident might easily have resulted in disorders which would have had serious repercussions throughout the rest of India.

The announcement of the terms of the British Government's decision on August 17 at least had the merit of putting an end to the general uncertainty and recrimination of the previous three weeks ; though to those who are unfamiliar with the methods whereby political controversies are normally conducted in this country it might at first have seemed that the situation had, if anything, been rendered even worse than before. For days on end the vast majority of newspapers filled almost their entire news page with comments on the award, and except for a few responsible organs of European opinion there were few indeed of them which did not, for one reason or another, adopt a tone of vehement denunciation. Since the whole cause for the British Government's intervention in the matter was that the various contending parties in India had pitched their claims so high that their opponents could never accept them, it had been obvious from the outset that no settlement that could possibly be devised by an outside party could prove generally satisfactory ; indeed, the more equitable and just the award was, the more might it be expected to be pleasing to none. Apart from this, it was in the circumstances inevitable that editors and politicians sympathetic with the Congress point of view should automatically condemn and misinterpret what the Government did. None the less, the volume of abuse with which the award was at first received was somewhat surprising, and clearly demonstrated how profound and passionate is the interest with which communal matters are regarded by the Indian educated classes. A casual perusal of newspaper comments on the subject, by someone unacquainted with Indian affairs and the history of this particular problem, would have given the impression that some uncalled for and abominable iniquity had been perpetrated, against which large sections of the Indian population were on the

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brink of active revolt. "Monstrous," "outrageous," "insulting," "iniquitous," and so forth were among the epithets freely used in the more extremist newspapers. The *Tribune* (Lahore), an ably conducted Hindu nationalist journal, described the award as blatantly pro-Moslem, and remarked that "the worst apprehensions of the public have been fully realised, and India is confronted with the gravest crisis in her history." Other papers of similar policy contained denunciations of the same kind, the *Liberty* (Calcutta), for example, declaring that "the decision was inspired by the single desire of holding the balance of power in the hands of the Moslem communalists in league with the Europeans." Several Moslem journals, on the other hand—there are far fewer Moslem papers than there are Hindu—expressed condemnation for precisely opposite reasons, the *Star of India* (Calcutta), for example, concluding a leading article with the following lament: "Juggle with figures how you will, haggle over percentages for ever, the bare fact remains that the Moslems of Bengal have not been given the majority representation to which they are entitled." A more careful perusal of the newspaper comments adverse to the award would in fact have demonstrated that a substantial number of them cancelled each other out.

So far as the Hindus were concerned, it was difficult at first, amid the spate of furious condemnation that filled the Press, to disentangle criticisms which were specifically Hindu, in the communal sense, from those which were inspired by more general nationalist sentiments. It was, however, soon clear that even those sections of the Hindu *intelligentsia* which are not favourably disposed towards the Congress were seriously aggrieved by the terms of the award. The Punjab Hindus would, of course, in any case have been offended by the fact that they, together with the Sikhs, were not ensured a majority against the Moslems. In addition, the Hindus of Bengal, who—as contrasted with the Bengal Moslems—are substantially the wealthier, more influential and better educated com-

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munity, were gravely disturbed to find that while their population strength amounted to 43 per cent. of the whole province, their representation in the new Councils would only amount to 32* per cent. In other provinces also, largely owing to the special weightage granted to the Moslems and other minorities, the Hindus considered they had genuine grounds for complaint, despite the fact that their numerical predominance had been recognised by ensuring them a safe majority of the whole House. General expression of the Hindu point of view in the matter was voiced at a meeting of the Working Committee of the Hindu Mahasabha in Delhi about a week after the award was published, when resolutions were passed strongly condemning it on the following grounds among others : that it introduced an unalterable communal ascendancy in Bengal and the Punjab by granting reserved seats through separate electorates to the Moslems; that it denied to the Hindu minority in these provinces representation in proportion to their population; that it granted undue weightage to the Moslems in provinces other than Bengal and the Punjab; that it created fresh separate electoral constituencies; and that it contemplated the formation of Sind into a separate province. These views were supported by a number of statements issued by individual Hindu leaders. Dr. Moonje roundly declared that the award strengthened the position of the Moslems everywhere and was "condemnable." Mr. J. N. Basu, a former delegate to the Round Table Conference, described it as "a complete change from the policy of toleration and of equal chances on a common basis for all." Mr. B. Das, chief Whip of the Nationalist party in the Legislative Assembly, said that the outstanding fact was that the Hindus had lost in every province and the Moslems gained more than their extreme demands. Raja Narendranath, a prominent Hindu leader of the Punjab, considered the award so unfair to his community that he wrote to the

* This includes the Depressed Class seats.

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Viceroy saying that he would not serve on any further committee or conference connected with the work of framing a constitution for India ; and Sir Sivaswami Iyer described the Government's decision as a triumph for Mahomedan agitation.

Condemnation of the award by the Sikhs was, if possible, even more emphatic. Within a few days of its publication a number of influential Sikh leaders in Simla went so far as to declare in a public statement that "the decision of His Majesty's Government has shaken the faith of the Sikhs in the British Government's sense of justice and fair-play," among the signatories of the manifesto being Sir Jogendra Singh, a Minister of the Punjab Government, and Sir Sundar Singh Majithia, an eminent and sober-minded Sikh leader of wide political and administrative experience ; and at about the same date Sardars Ujjal Singh and Sampuran Singh wrote to the Viceroy resigning their membership of the Consultative Committee on the ground that the award gave the Moslems "an unalterable religious majority in the Punjab," and that "the new constitution would thus be worse than the present." It is to the credit of the responsible leaders of the Sikh community that they have done their best to discourage the militant agitation against the Moslems which certain fanatical Sikh organisations were fostering during the weeks preceding the issue of the award ; and by the end of August the likelihood of serious communal strife in the Punjab had been much reduced. But at the moment of writing, their opposition to the terms of the award appears to be as uncompromising as it was ten weeks ago, and it has proved impossible for the Government to secure the services of any Sikh leader of standing from British India to represent the community at the forthcoming final session of the Round Table Conference in London.*

There was also a good deal of adverse criticism of the award from the Moslems, though here it would appear that

* The Sikh delegate chosen comes from Patiala State.

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there was less real justification for it, and that the denunciations were more tactical than spontaneous. At the meeting of the Working Committee of the All-India Moslem Conference in Delhi a few days after the award was announced, resolutions were passed expressing disappointment with it for the following reasons among others : that the Moslems were denied the right of a statutory majority in the Punjab and Bengal ;* that the weightage granted to the Moslem minorities in the United Provinces, Bihar and Orissa, and the Madras Presidency was reduced ; that undue weightage was given to non-Moslem minorities in the North-West Frontier Province ; that the question of the separation of Sind was left undecided ; and that British Baluchistan was not brought within the scope of the scheme. Similar resolutions were passed by a number of Moslem organisations throughout the country, among them being one agreed upon at an important meeting of Moslem leaders in Simla, under the chairmanship of Sir Zulfiqar Ali Khan, which urged the Moslems of the Punjab "to convene meetings all over the province with a view to bringing home to the Government their sense of disappointment, and to organise themselves to protect their legitimate rights." Various Moslem leaders, including Sir Abdul Qaiyum, a Minister of the North-West Frontier Province Government, issued statements criticising the award, but generally speaking the Moslems seemed to recognise that, although His Majesty's Government's decision by no means satisfied their claims in full, it was at least better than it might have been, and should not be wholeheartedly condemned.

So far as the other minority communities were concerned, the Europeans and Anglo-Indians evidently considered that their interests were tolerably well safeguarded by the award. Some protests were raised by the Indian Christians and by the women's organisations, largely on nationalist

* This may be profitably contrasted with the corresponding resolution of the Hindu Mahasabha.

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grounds. The two Depressed Class leaders, also, Dr. Ambedkar and Mr. Rajah, both issued denunciations of the award, though for different reasons ; but it is noteworthy that hardly any attention was devoted to the Depressed Class question by representatives of the other communities at this stage.

The main attack on the award, indeed, came from those who were thinking, not in terms of one particular community, but nationally. In this the Indian critics of the present British régime in this country have some justification for complaining that they receive less sympathy and encouragement than they might, on theoretical grounds, consider themselves entitled to expect. The average newspaper reader in Great Britain, glancing hurriedly through an article about separate electorates for the minorities in India, probably has little conception how fantastically at variance with the accepted principles of democracy this system is in practice, and would be amazed if it were suggested to him that Anglicans, Roman Catholics, Presbyterians, Quakers and Jews should be strictly segregated from one another for electoral purposes, and obliged to record their votes, probably on different days of the week, for parliamentary candidates who must always hold the same religious beliefs as themselves. The differences between Hindus and Moslems, however, are far more acute and fundamental than those between Anglicans and Roman Catholics ; and once the principle of separate electorates is established, as it has been in India since 1909, it would seem almost inevitable that with every fresh extension of democratic institutions it must be extended over a wider field, unless the main communities concerned are prepared to abandon it. But it was this extension that rendered the Communal Award so obnoxious in the eyes of the majority of Indian nationalists. Sober organs of Indian Liberal opinion such as the *Leader* of Allahabad, the *Hindu* of Madras, or the *Servant of India* of Bombay, protested almost as vehemently as the most irresponsible Congress

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or communalist papers against the provisions of the award, on the ground that it would involve excessive and minute fragmentation and subdivision of the electorate, and thus induce a state of affairs in which national interests would be completely submerged in a welter of factional intrigue. During the second and third weeks subsequent to the issue of the award, however, the excitement it had engendered showed signs of subsiding, and a number of realistic statements issued by the more responsible political leaders had begun to bring home to the public the essential fact of the whole situation—namely, that whatever the defects of the award might be, the choice before the country was either to accept it or, alternatively, to abandon all prospect of constitutional progress until such time as the Indian communities solved the hitherto insoluble problem of devising a settlement for themselves.

II. MR. GANDHI'S FAST

ON September 13—nearly a month after the award had been published, and at a time when the agitation regarding it was definitely dying down—the extraordinary announcement was made that Mr. Gandhi a week later proposed to start starving himself to death unless an alteration was made in the provisions of the award regarding the representation of the Depressed Classes. The news took the country completely by surprise, and there were indications that supporters of the Congress, and Indian nationalists generally, were at a loss to know how to exploit or explain the Mahatma's decision to select this particular matter for so drastic and peculiar a protest. As we have seen, the most formidable attack on the award had been that based on nationalist rather than communal arguments, and the public would have found it easier to understand an act of self-mortification by the Mahatma as a protest against the principle of separate electorates generally, or against

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some administrative matter such as the maintenance of the Ordinances, than one relating to a comparatively small and specifically Hindu issue. The ten days between the publication of the correspondence that has passed between Whitehall and Mr. Gandhi and the signing of the Poona settlement constituted one of the strangest episodes in Indian history.

The actual facts relating to what took place are too well known to require recapitulation ; it will be sufficient if we confine ourselves here to describing their significance, as it appeared at any rate to observers in close touch with the movement of events. The main point that emerges is the exceptionally fortunate way in which matters worked out for the Government. On September 13 there was every indication that, irrational and absurd though Mr. Gandhi's action may have seemed in Great Britain or America, it might place the authorities here in an extremely awkward predicament. Had the possibility of an agreement between the caste Hindus and that section of the Depressed Classes led by Dr. Ambedkar been ruled out at the beginning owing to Mr. Gandhi maintaining the *non possumus* attitude with regard to a reservation of seats which he took up at the second session of the Round Table Conference, the fast would have lasted much longer than a mere four days, and as soon as the Mahatma's health was really in danger popular excitement would have run very high, and great pressure would have been brought to bear on the Government by the caste Hindus and their supporters to accept a settlement between them and the school of thought represented by Mr. Rajah as equivalent to a settlement with the Depressed Classes as a whole. Again, had Mr. Gandhi agreed to accept the conditional liberty which the authorities were prepared to grant him during his abstinence from food, agitation against the Government could have been manipulated with much greater ease, and at the conclusion of the fast, had Mr. Gandhi survived, Government would have found it difficult to revert im-

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mediately to their former position and might, as a result, have had to face a substantial revival of civil disobedience. On the other hand, had Mr. Gandhi died, the consequences would have been at least equally difficult and embarrassing. The value, and possibly to a large extent also the cause, of Mr. Gandhi's dramatic action lay, of course, in the occasion it provided for a whirlwind publicity campaign for the revival of his own and his party's attenuated prestige. But it seems clear that on this occasion, despite the reputation he has deservedly obtained as a brilliant publicity expert, he miscalculated badly. The brevity of the whole episode ; the fact that on the very day his fast began he signified his willingness to accept the principle of reservation of seats which he had uncompromisingly opposed nine months previously ; the difficulty which the average Congress supporter experienced in exploiting for nationalist purposes a protest of limited scope based on grounds of "pure religion" ; the announcement just before his spectacular abstinence commenced that he had acquired a new set of false teeth ; and the facility with which, owing to his having so conveniently refused to leave jail, the Government managed to revert, from the administrative point of view, to the *status quo* as soon as the fast was over—all told heavily against him.

It would, of course, be easy to poke fun at the caste Hindus for the intensely emotional outpourings about the Depressed Classes with which they filled the press during the three weeks or so subsequent to Mr. Gandhi's fast, and to make out that their protests of benevolence towards these unfortunate co-religionists of theirs, and their claims that untouchability had been put an end to, were a mere political stunt and radically insincere. This, however, would be unfair. There was certainly something ridiculous in their theatrical attempts, by holding a few inter-caste dinners, and by opening to the Depressed Classes a few temples, public wells, and so forth, to convince the world that untouchability had suddenly become a thing of the

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past. At the same time it should be recognised that probably the chief, and certainly the most satisfactory outcome of Mr. Gandhi's action has been that it has brought about a real stirring of conscience among the caste Hindus, with regard to the social injustices to which they and their forefathers have hitherto subjected their outcaste compatriots. It is nevertheless now clear, if it was during the first flush of enthusiasm, that the full benefits of this change of attitude are unlikely to be realised for many years. From the beginning, well-informed observers were aware of a strong under-current of opposition amongst the more orthodox and conventional Hindus to the social implications of the Poona settlement, and the reaction has now become more practical and vocal. Several public protests have already been made against the alteration of established religious practices that the settlement denotes, and in a number of places privileges, such as the right of access to temples, wells, and so forth, which were conferred by the caste Hindus on the Depressed Classes when their excitement with regard to them was at its height, have now been withdrawn. In addition, there are signs that the politically minded Hindus are now seriously perturbed by the reflection that they are committed to allotting to the Depressed Classes, from their own quota, nearly twice as many seats in the Councils as were conferred upon them under the Communal Award. It may be anticipated that this point will assume even greater importance a year or hence. Pandit Malaviya, one of the chief initiators and exponents of the Poona settlement, has recently seemed to qualify his original enthusiastic statements by indicating that he does not consider its provisions necessarily in the desirability of inter-marriage, inter-dining, and similar direct personal contacts between the caste Hindus and the Depressed Classes, and this view has since been endorsed by Mr. Gandhi himself. It would, however, be a serious mistake to make this the basis for allegations that these caste Hindus' expressions of benevolence towards the Depressed

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Classes have been no more than an empty political demonstration. Although the fact was certainly exaggerated for political purposes, there does really exist a genuine and increasing desire for reforming Hindu conduct with regard to the Depressed Classes among a considerable section of the Hindu community proper. The explanation of the reaction which is at present manifest simply is that no civilised society can possibly put an end in a month, or a year, to social habits and prejudices which have been established for centuries.*

A subsidiary consequence of the Poona settlement, which has aroused a good deal of interest during the last month, has been the revival of attempts to devise a direct communal agreement between the Hindus and the Moslems. The nationalist press has expressed the greatest enthusiasm and excitement about the move, but hitherto little has materialised from it beyond a series of infructuous confabulations and journeyings throughout the country by Pandit Malaviya on the part of the caste Hindus, and by Maulana Shaukat Ali on behalf of the Moslems. From the outset, representatives of the more orthodox school of Moslem political thought have been extremely suspicious of the motives with which the negotiations were initiated, and a number of Moslem leaders and newspapers have not hesitated to suggest that the whole affair is merely yet another attempt on the part of caste Hindus, possibly with the help of cash, to undermine the position of the Moslems and reduce them to a position of political impotence.

* Since this article left India Mr. Gandhi has threatened to undertake another fast to death "if there is a manifest breakdown of the Yeravda (Poona) pact owing to the refusal of the caste Hindus to implement its terms." If a reply, he considers, would mean a betrayal of Hinduism, and if it is a war against the principles of the Hindu scriptures. The occasion of the threat was the failure to throw open to untouchables the Guruvayoor temple in southern India, and the fast is to begin if this is not done on or before January 1. If, declares Mr. Gandhi, "the canker of untouchability is scotched," Indians will forget the differences between caste and caste, religion and religion, and will begin to believe they are all branches of the same parent tree. (See *The Times*, November 7 last.)

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Great jubilation was professed in nationalist circles at the outcome of the recent conference of Moslems in Lucknow, but a careful perusal of the resolutions passed there would seem to indicate that the Conference has been more successful in reconciling divergent sections of Moslem opinion with one another than in reconciling the Moslems generally with the Hindus. It is also noteworthy that a considerable body of Hindus are apprehensive of the course the negotiations may take, since it is assumed that the Moslems are scarcely likely to abandon their separate electorates without demanding from the Hindus, as a makeweight, a larger proportion of seats in the Councils than they have hitherto secured ; and, as we have explained, the Hindus generally are already disconcerted to find how many seats they themselves are required to surrender under the terms of the Poona settlement. Dr. Moonje has now issued, for the guidance of the negotiators, a statement of the minimum Hindu demands as set forth by the Hindu Mahasabha, and it is difficult to see how this will provide a practicable basis for any compact with the Moslems. At the moment of writing a "unity" conference is about to be held at Allahabad at which a number of Hindu and Moslem politicians will be present ; but there remains a great deal of scepticism as to its achieving any appreciable result.* Maulana Shaukat Ali still expresses optimism as to the outcome, and the fact should be borne in mind that his influence with the masses throughout India is considerable, and that a number of his critics are politicians of a more academic kind. The Maulana's enthusiasm, however, seems lately to have run away with him somewhat. His announcement at an early stage of the proceedings that he would bring about the unity of

*The Unity Conference drew up an agreement accepting Moslem majorities in the Punjab and Bengal, and the separation of Sind on condition that the Sikhs are granted 20 per cent. of the representation in the Punjab legislature and 5 per cent. in the central legislature. The agreement requires ratification by the minorities. Leading Moslems in Northern India held aloof from the Conference. (See *The Times*, November 16, 1932.)

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India within a fortnight was scarcely calculated to impress the sceptics, and his subsequent indiscretion in addressing a letter to the Viceroy demanding the release of Mr. Gandhi—which the Moslems generally have never given any indication of desiring—and issuing this letter to the press without obtaining the Viceroy's consent or giving him an opportunity of reply, has not advanced his cause.

Since Mr. Gandhi's efforts to arrange a settlement of the communal question in the past have been so conspicuously unsuccessful, the fact that Maulana Shaukat Ali is pressing for his release in order to improve the prospects of the present Hindu-Moslem negotiations is considered somewhat strange.

It is worthy of remark that such real agitation as there has been for the release of Mr. Gandhi, on one pretext or another, since September 13 appears to have attracted more attention, and had more serious importance attributed to it, in Great Britain than in India. Most nationalist newspapers have, of course, published numerous articles urging that Mr. Gandhi should be set at liberty, either for the purpose of implementing the Poona settlement, or initiating a Hindu-Moslem *concordat*. But in this country it is fairly widely recognised that such propaganda is merely part of the customary game of endeavouring by all possible means to enhance their own and their leader's prestige. The position of the Government in the matter has been frequently and unequivocally expounded in the past, and is one which even the most unsophisticated can readily understand. The simple proposition that Government will only modify their present attitude, and undertake to co-operate afresh with Congress, if Mr. Gandhi agrees without reservation to call off the civil disobedience movement, is one which can be easily explained and defended. There have, however, been indications during the last three weeks or so that important sections of British opinion are inclined to look at the matter rather differently, and rumours of this have added to the clamour in the Congress

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press. The average resident in this country necessarily views the problem at close range. He has experienced only eighteen months ago a not dissimilar situation, and the consequence of the negotiations with Mr. Gandhi early in 1931, and the subsequent truce with the Congress, were not such as to make him desire a repetition of the experiment.

III. TERRORISM IN BENGAL

ALTHOUGH the authorities have good reason to congratulate themselves upon the success with which they have combated the civil disobedience movement, they certainly have no cause for pleasure when reflecting on the progress of their endeavours to eradicate the terrorist menace in Bengal. It is now nearly two and a half years since signs of a fresh and more extensive revival of the long-established murder cult in this province manifested themselves, and despite the most strenuous endeavours to prevent them, the outrages continue and indeed increase. Throughout the last three months there have been innumerable minor manifestations of terrorist activity in the form of armed robberies, smuggling of revolvers, manufacture of explosives, and so forth, accompanied by a series of peculiarly shocking and well-organised crimes. Of these, the worst have been the bombing of a party of defenceless European men and women in a dance-hall in Pahartali, near Chittagong, on September 24; the two attempts, on August 5 and September 28, to assassinate Sir Alfred Watson, the editor of the *Statesman*, in Calcutta; the murder of Mr. Ellison, an assistant Superintendent of Police, at Comilla in the last week of July; the attempted murder of Mr. Grassby, another police officer, at Dacca towards the end of August; and the murder on October 17, of an alleged police spy, one Sisupal Datta—a former Congress worker—in Khulna District. Exceptionally

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strenuous measures have now been adopted for dealing with the terrorist menace, including the imposition of a collective fine of Rs. 80,000 on the inhabitants of Chittagong in consequence of their failure to divulge anything to the police regarding the identity and whereabouts of the perpetrators of the Pahartali outrage, and the despatch of a considerable number of troops to different stations in Bengal from other parts of India.

It must, however, frankly be stated that even in Delhi—and far more so in Calcutta—the attitude in official circles with regard to the possibility of stamping out terrorism in Bengal might at present almost be described as one of despair. It is evident that the movement is well organised by individuals who have hitherto managed successfully to conceal their identity; that owing to a combination of economic, political and racial reasons, there is a large, and apparently increasing, number of young men and women in Bengal who can be induced, for glory or money, to murder officials and Europeans; and that a substantial portion of the educated classes in the province are either in part sympathetic with the movement, or else so impressed by its strength that they have not the courage to disclose to the authorities such information regarding it as they receive. Two features of the latest crop of outrages have caused the Bengal Government particular reason for disquiet; first, the fact that the worst of them occurred near Chittagong, where ever since the notorious armoury raid in April, 1930, elaborate precautions against a renewal of terrorist crime have been taken; and secondly, that both at Chittagong and in Calcutta several of the perpetrators of the outrages had shown a willingness to commit suicide by poison rather than allow themselves to be captured by the police. It is also observed that despite the intensive investigations which have been made, no information of any kind appears hitherto to have been obtained regarding the gang of terrorists who were responsible for the Pahartali outrage.

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So far as the more normal administrative problems of India are concerned, such as outbreaks of rioting and disorder, there has been comparative tranquillity during the three months under review, though a number of incidents of some gravity of course have occurred. In a country containing 350 million highly diverse peoples, the vast majority of whom are illiterate and poverty-stricken, disturbances of one kind or another are frequent and inevitable. As regards communal trouble, it is of interest that the three worst outbreaks took place not in British India, but in the territories of the Indian States, which have hitherto been relatively free from disorders of this type.

This article is, however, already on the verge of exceeding its appointed length, and the last two topics we need to deal with, namely, the situation with regard to the Ottawa trade agreement, and the prospects for the forthcoming Round Table Conference in London, must be disposed of briefly. As regards the Ottawa agreement, it would be difficult in any case to make much profitable comment at this stage, since within the next ten days it will be under discussion by the Legislative Assembly,* which has been specially convened to consider it. There has so far been a surprising dearth of well-informed comment on the provisions of the agreement. In our last article the difficulties which had arisen as the result of the revised constitutional procedure announced by the Secretary of State on June 27 were fully explained, and the fact that it has proved possible, by the readjustments necessitated by the failure of the Consultative Committee to transact the business entrusted to it, to regain the co-operation of the Indian Liberals, may be taken as a hopeful augury for the future.

India. October 30, 1932.

P.S.—The Burma elections have taken place and resulted in a victory for the anti-separationists by 10 seats.—Ed.

* The Government agreed on November 10 to the proposed Ottawa agreement being referred to a Committee of the House.

GREAT BRITAIN

I. THE RESIGNATION OF THE LIBERAL MINISTERS

THE most important event at home during the last quarter has been the resignation of the Liberal Ministers and Lord Snowden from the Cabinet. The first rumblings of the coming storm were heard at the end of August, when it was stated, from an obviously authoritative source, that there was no truth in the suggestion, then being freely made at Ottawa, that the Liberal Ministers were already committed to accept the findings of the Conference. The moment that the news of the general lines of the Ottawa agreements was known it became increasingly clear that the Ministers representing the official Liberal party regarded their position in the Government as untenable. On September 29 they handed in their resignations to the Prime Minister.

In the letter in which they conveyed their resignations they arraigned the whole protectionist policy of the Government.

The results so far (they wrote) have been profoundly unsatisfactory. The policy of protection by limiting imports, has cut into our exports; it has reduced by one-fourth our valuable re-export trade; it has contributed greatly to the laying up of hundreds of thousands of tons of British shipping in recent months. The numbers of the unemployed, which were beginning to diminish after we left the gold standard, have increased in the last five months by 300,000.

At the request of the Cabinet they had withdrawn their resignations which they immediately offered on the introduction of the Import Duties Bill, but the agreements at Ottawa created a fresh situation.

The letter was signed by Sir Herbert Samuel, Sir Archibald Sinclair, Mr. Isaac Foot, Lord Lothian, Sir

The Resignation of the Liberal Ministers

Robert Hamilton, Mr. Graham White, Mr. Walter Re Lord Allendale and Mr. Harcourt Johnstone. It was accompanied in the press by another letter signed by Lord Crewe, Lord Reading, and Lord Grey, expressing full agreement with the course adopted by the retiring Ministers. The resignations were also endorsed by all the various organisations within the Liberal party. Though the followers of Sir John Simon and Mr. Runciman immediately made it clear that, in the words of Mr. Runciman, "they were not quitters and that they intended to remain and support Mr. MacDonald," it was manifest that the resignations meant the withdrawal of support from the National Government of the main forces of Liberalism.

To that extent the National Government has been weakened. It has lost the support of its Radical element. Sir Herbert Samuel and his friends may have only 30 or 40 followers in the House of Commons, but they represent a substantial vote in the constituencies whose adhesion the National Government at the last election won a large number of seats that would not have been won on a Conservative appeal alone. The resignation of Lord Snowden, too, means more than the departure of the Lord Privy Seal. It is undisputed that his two appeals to the electors over the wireless in October of last year turned more votes from Labour than any other single factor at that extraordinary election. The ability of the retiring Ministers is also unquestionable. Sir Herbert Samuel is a first class administrator. He has the rare reputation of never having committed an indiscretion. He was just the man to be at the Home Office at a time of growing social discontent. Lord Lothian had won the confidence and affection of great numbers in India and his resignation is undoubtedly a loss to the India Office. Mr. Isaac Foot piloted the Mines Bill through the House of Commons in the summer with conspicuous success.

In spite of all this, however, the Government on the whole has probably been strengthened by these resignations.

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What it has lost in Liberal support it has gained in increased solidarity. If the policy of protection is a right one it is an advantage to have men who believe in it to carry it out. Tariffs are one of the main weapons of the Government in fighting unemployment and to have in the inner circle of Government men who dislike and distrust their use is a weakening influence. The Government, in a sense far more real than before, can now present a united front.

Nor is it necessarily damaging to the Government that the Liberal resignations have strengthened the elements of opposition. What the Government has lacked most of all up to now is the stimulus of informed criticism. Mr. Lansbury does his best, but he would himself admit that he is not of the calibre of great Opposition leaders; Mr. Arthur Greenwood, returned at the Wakefield by-election, has not yet recovered the debating form he exhibited in the last Parliament. Sir Stafford Cripps, the last Solicitor-General, alone can meet the leading debaters of the National Government on something like equal terms. It is not in the national interest that any Government, even a National Government, should be as free as this Government has been from constructive criticism. Now that Sir Herbert Samuel has joined his Liberal friends below the gangway on the Government side all that is changing. A parliamentarian of thirty years standing himself, he is able to perform the important duties of an Opposition leader in making effective criticism or drawing valuable information. He and his followers have made the running on the Ottawa-debates. They should play a useful part in the years still ahead of this Parliament in keeping the Government up to the collar.

There is, in fact, no reason to suppose that the resignations of the Liberal Ministers have in any way shortened the life of the Government. The annual conference of the Conservative party held at Blackpool revealed an interesting attitude of mind. Here if anywhere, among an audience of long experience as party champions in the

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constituencies, on the morrow of the defection of the greater part of the Liberal party, and in the presence of issues which in the past have aroused the deepest controversy, it might have been expected that criticisms of the experiment of co-operation between them, and of the results of that co-operation, would inevitably arise. But there was no obvious movement of revolt, and Mr. Baldwin, in closing the Conference with a speech as a National Minister, interpreted the undoubted feeling of the audience that the Government should continue to be a National Government.

The only serious rumblings of revolt had relation to Indian policy. A resolution was moved on behalf of the Epping division association, which Mr. Churchill would have supported if illness had not prevented his attendance, declaring that the creation of a vast illiterate Indian electorate would be inimical to the welfare of India and Great Britain alike. This motion had the support, among others, of Lord Lloyd. Sir Samuel Hoare, the Secretary of State for India, met the criticisms by emphasising the point on which everybody agreed—that there must be important constitutional changes. He implored his audience not to make the situation more difficult than it already was. His appeal appears only to have been in part successful. The new Government of India Bill when it emerges from the Select Committee of both Houses of Parliament is likely to be exposed to severe criticism from a section of the House of Commons. It is unfortunate in this connection that the Labour party should have declined to nominate representatives to this Conference. But the presence of Lord Lothian, who, though he has resigned from the Government, has announced that he is “in complete agreement with the Government on its Indian policy,” will do much to maintain the national character of this Indian Committee.

There are signs of more trouble brewing for the Conservative leaders over the question of a tax on meat. Conservative back benchers, led by Lord Winterton, are

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demanding the substitution of 4d. a lb. tax on meat for the present meat quota. This has been refused by the Cabinet. It remains to be seen whether these Conservatives will now transfer their opposition from the committee room to the division lobby. The present indications are that the revolt will not be of any great importance. Both in the House of Commons and the country the consensus of opinion among the responsible leaders of Conservative thought is in favour of maintaining as long as possible the national complexion of the Government. The departure of the Liberal Ministers has only confirmed their determination.

II. THE POSITION OF THE LABOUR PARTY

AFTER the Liberal resignations the second outstanding political event has been the Labour party conference at Leicester. Although a general election is a long way ahead, and in any case the prospects of a Labour majority are remote, the resolutions passed at Leicester are not just academic programme making. However absurd their strength in the House of Commons, Labour in the constituencies remains a powerful force. Its re-emergence some years hence as the largest single party in the House is by no means impossible, and the question what sort of administration will occupy the front bench after the next election will depend largely on how the Labour party now aligns its policy.

The whole proceedings of the Labour Conference indicate a definite movement to the Left. What was even more interesting was that it came from the rank and file rather than from the leaders. The agenda prepared by the Executive was itself comparatively mild. There were a series of policy reports on banking, transport, electricity, and agriculture. Many of the proposals would be welcomed by the ordinary advanced Liberal of the Summer

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School persuasion. Indeed they read as if they had been taken straight out of the Liberal "Yellow Book" of 1928—*Britain's Industrial Future*.

But, as the Conference proceeded, it was quite clear that the delegates were determined not to accept any watering down of the full-blooded socialist gospel. The moment the draft programme was introduced they set about the work of gingering it up. The official resolution that the Bank of England should be brought under public ownership and control, the Governor to be appointed by the Government, was not nearly strong enough for them. The Conference carried an amendment for the nationalisation of the joint stock banks as well as the Bank of England, a card vote resulting—for 1,141,000, against 984,000. Appeals to caution and electoral self-interest were brushed aside. Sir Stafford Cripps defined the issue of the amendment as being whether "they intended, immediately upon coming into power, to seize the power of finance which had been in the hands of the capitalists, or whether they proposed to temporise and only go so far as they believed would justify them in calling themselves socialists without endangering their possible popularity with the small investor." Successful here, the rebels against what they regarded as the timidity of the Executive took up the challenge on an even more vital point in future programmes and procedure. Sir Charles Trevelyan moved a resolution that the leaders of the next Labour Government and parliamentary party be instructed by the National Conference, "That on assuming office, either with or without power, definite socialist legislation must be immediately promulgated and the party shall stand or fall in the House of Commons on principles in which it has faith."

Obviously such a resolution cut away the possibility of a Labour Government coming into office without an independent majority. Twice Labour has assumed office with the co-operation of the Liberals. It could never do so again if this resolution accurately represented the

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attitude of the party. Mr. Henderson was quick to see its full implications. He opposed it with all his power, insisting that, as the Conference had already agreed that "when the time comes to form another Government—whether minority or majority—no step will be taken until the Conference has been consulted," such a resolution would tie the hands of the Executive. "I am warning you," he continued, "that, if you carry this resolution, you will be doing something that is contradictory to that position and something which you will regret." But it was a hopeless fight. The whole Conference was against him. Mr. C. T. Cramp, the powerful trades union leader, replied that he would rather fight a losing fight on the definite straight policy of socialism, than gain oblique success. Even moderate-minded men like Major Attlee demanded that "they should tell the people that they could not get socialism without tears. . . . They must not wait until their mandate had frittered away." Finally, the resolution was carried without a dissentient voice. A few days afterwards Mr. Arthur Henderson resigned on the ground that there was no immediate likelihood of his return to the House of Commons, and Mr. Lansbury was elected leader of the Labour party. The victory for the uncompromising socialists was complete. "The inevitability of gradualness," the phrase coined during the first Labour Government by Lord Passfield to describe the pace at which the approach to the socialist State would be made, is now out of date. If resolutions mean anything, Labour will not again take office without power. It is to be socialism or nothing. For the time being, therefore, the official Opposition is not so much a potential alternative government as an instrument of propaganda for socialism.

The change in the direction of the party has immediately become evident in the House of Commons. Mr. Lansbury, in moving the vote of censure on unemployment at the end of October, declared definitely for revolutionary as

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opposed to evolutionary socialism. His actual words are worth disinterment from Hansard: "The Labour party up to a year ago," said Mr. Lansbury, "under the leadership of the Prime Minister, thought that we could work within the capitalist system and work outward towards socialism. We are convinced that the economic development of the world will prevent that being done." There in a sentence lies the gulf between the new Labour party and the old.

III. THE FUTURE OF THE NATIONAL GOVERNMENT

THE change is bound to have an effect on the future of the National Government. If the present electoral tendencies become permanent, Labour as a Socialist party is less formidable than Labour as an alternative government of the Left. There is no candidate more difficult for Conservatives to fight than a moderate Labour man. There is no candidate more easy for Conservatives to fight than a man who can be labelled an extremist. The failure of Mr. Baldwin's election slogan of 1929—"Safety First"—was that the electors as a whole did not see any danger in a MacDonald Government. The overwhelming victories of the last election emphasised the fact in a startling fashion that, when it comes to a battle between "the haves" and "the have nots," the "haves" are in the majority. The average trade unionist is not a theoretical socialist. He is far more concerned about getting the most out of the present system than any problematical gains he may achieve in the socialist State. Nor, indeed, is he at present susceptible to mass bribery. The view that the State is a bottomless purse out of which the social services can be financed up to any figure is not nearly as strong with the electors as it was once. The fear, so acute at the election, that the whole economic system might crash in ruins if the policy of shovelling out public money without

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any enquiry or discrimination were continued, has not yet disappeared. There are indeed signs that the lessons of the last election have not been altogether lost on the Labour party. That is the only explanation of their sudden caution on the Means Test. For months they have been propagandising from Land's End to John o' Groats against any sort of means test, but, challenged by the Attorney-General on October 25 in the House of Commons to say whether they would repeal the Means Test, the back-benchers shouted "Yes" and the front-benchers made no reply, and no taunts availed to induce Mr. Lansbury to make any definite statement. There is no doubt that the advance of Labour to the Left has strengthened the forces of the Right and strengthened their prospects of being returned again at the next election.

Much depends on how far Liberalism can rally its forces. With the Conservative party committed to protection and the Labour party to socialism, there should be an opportunity for a third party. It is too early to judge whether they can seize it. The Cardigan by-election at the end of August gave a majority to the Liberal in a three-cornered fight of more than 4,000, but it is one of the few safe Liberal seats in Great Britain. An interesting feature was the decline of the Labour vote on the figures of the general election, at a time when it might be expected that the Labour vote would be increasing everywhere. But the disastrous divisions in the party continue. An invitation to Mr. Lloyd George to attend a meeting at the Queen's Hall, where the Liberal leaders were to explain the reasons for their resignations from the Government, drew from him an acid letter of refusal. In Parliament Mr. Lloyd George continues to sit with the Opposition, while Sir Herbert Samuel and his followers maintain their position among the Government supporters.

The whole future of politics really depends on the economic situation. The October returns of oversea trade are better, and there has, for some time, been a more

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cheerful feeling in the air, but it takes more than one swallow to make a summer, and at present there is no real sign of a permanent trade revival. The Prime Minister, on October 25, stated in the House of Commons that the increase in the number of unemployed since the Government came into office was 230,000. That figure was arrived at after taking into account the numbers of unemployed, probably round about 170,000, who have been struck off the register as the result of the Anomalies Bill. The figures for last month show a decline of over 100,000. After a year of the National Government the numbers of the unemployed still remain at what was regarded as the peak figure when the Labour Government went out of office.

On the success with which it brings those figures down this Government will be judged. That is why its handling of foreign affairs is being observed with such strained attention. Sir John Simon is the chief Minister of unemployment, and it was felt that his authorship of the Simon note to Germany in September and his handling of the Hoover proposals at Geneva did not help the situation, though his speech in Parliament on November 10 has done much to obliterate the earlier impression. It will depend upon what happens at the great conferences whether the Government recovers any prestige that it may have lost in foreign affairs.

At home so far as the administration of unemployment relief, now, unfortunately, an important barometer of popularity, is concerned, the Government's position has slightly improved. It has already dealt with some of the greatest hardships of the Means Test system. It is a great pity for its own sake that its intentions were not made known before the outbreak of riots in Birkenhead and Liverpool and the march of the hunger-marchers on London had been planned. It is being accused quite unfairly of giving way to force what it denied to reasoned argument. In its legislation the Government has followed almost exactly the recommendations of the Royal Com-

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mission on Unemployment, the findings of which were made known early in November. It has exempted from the operation of the Means Test 50 per cent. of a disability pension and 50 per cent. of workmen's compensation. It has also insisted that, on the first £300 of savings, in general it should be the income and not the capital that should be taken into consideration. These reforms will go far to remove the very real grievances that have arisen out of the administration of the Means Test. It was announced in the House of Commons that this Bill was only temporary pending the production of legislation, overhauling the whole machinery of unemployment relief, following on the Report of the Unemployment Commission. The main lines of that Report concern the establishment of a fixed relation between contributions and the benefit period, so as to make the scheme conform to the essential principles of insurance, and remove from it all taint of being "a dole."

Other interesting proposals of the Government have relation to agriculture. The Government has won the consent of the chief meat exporting countries to a voluntary restriction in the flow of supplies sent to this country. But even if these drastic regulations achieve all that is hoped for, the restoration of agriculture to prosperity will be a very slow process. It regards itself as very fortunate in the possession of Mr. Walter Elliott as its champion in the House of Commons. He has a mind unusually open to new ideas, and his appointment as Minister of Agriculture was the most popular event arising out of the reconstruction of the Government. The settling, after many vicissitudes, of the cotton strike and the prevention of a hold-up by the London busmen has also saved the Government from the embarrassment of paralysing industrial disputes, though there is a cloud on the railway horizon, the companies having announced the necessity of making further reductions in wages.

So the National Government continues, shaken by successive crises but on the whole strengthened in solid-

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arity, though probably not in prestige. There have been no recent by-elections in the industrial areas, but at Twickenham, a typical dormitory constituency of London, the Government majority fell by 20,000 on the figures of the last election. The Government would certainly have difficulty in holding any industrial seat where the majority was less than 5,000.

But too much attention need not be paid to by-election landslides, however spectacular. The future of the Government, and indeed of the parties, depends on the future of the trade returns. If they become substantially worse so that the whole economic system is threatened with collapse, there may well be a big reaction to Labour. If they remain as they are and it becomes obvious that tariffs have not maintained expectations or that foreign countries, because of our tariffs, are recovering from depression at a quicker rate than ourselves, the Liberals will gain in strength. If, on the other hand, trade improves at a steady rate, so will the stock of the Government and the prospects of a second lease of power. It is far too early to-day to say which will happen.

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With this none too auspicious prelude, the full text of the agreements was brought before Parliament by Mr. Bennett on October 12. His claim for them was that,

after almost half a century of hopes and fears and vain endeavour, the countries of the British Empire have at last come together in agreement, based upon the principle of reciprocal and mutually advantageous tariff preferences, and have, moreover, by their common trust and zeal, prepared the way, not only for the practical working out of existing agreements, but for their augmentation at such times as our common interest may suggest.

He declared that "while naturally and properly each delegation did its best for its own country, all realised that no agreement could be lasting or beneficial which was one-sided," and that each delegation tried, while "advancing its own position, to be mindful of the position of other parties to the negotiations." Special emphasis was laid on the great value to Canada not merely of the preferences granted in respect of food and other natural products, but also of the right of free entry to the United Kingdom market of practically the whole range of Canadian manufactured goods. In return, he declared, it was proposed "to adjust our preferential tariffs so as to place the United Kingdom producers on that basis of fair competition with ours that has been afforded to us by continued free entry into their markets." To this end the tariff board which was to be set up was to act "as a judicial as well as a fact-finding body"; not merely would it investigate labour and other production costs and the like, but it would be its right and its duty to make recommendations to the Government with regard to the tariff adjustment required, in the light of the evidence, to give effect to the principle laid down in the agreement that the United Kingdom producers are to have "full opportunity of reasonable competition on the basis of the relative costs of economical and efficient production." While the responsibility of recommending tariff changes to Parliament must remain with the Government, Parliament and the country might

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rest assured that the Government, which gave the solemn undertaking contained in the agreement to the United Kingdom Government, would see that it was carried out "in spirit and in letter." Finally, the hope was expressed that the Opposition, recognising that "the agreements were for the good of Canada and the good of the Empire," and "constituted the completion of the task which was attempted by Sir Wilfred Laurier at the Colonial Conference of 1902" (when he advocated the principle of reciprocal imperial preferences), would "with one voice" approve them.

It was, of course, a vain hope. From the outset the Opposition, as was certain from their attitude ever since the 1930 Conference, took strong objection to practically every feature of the United Kingdom agreement, except those terms which proposed the reduction of existing duties, and those which tended to increase the possibilities of a greater demand for Canadian products. In particular the formal amendment moved by the Opposition condemned all the provisions for increases "in an already unreasonably high tariff," as well as the alleged "effect of the agreement whereby the present Government has precluded Canada from exercising the right which is vital to the prosperity of the Dominion of making trade agreements for the marketing of her products abroad." The greatest concern was also expressed that "no definite assurance was given that regulation by order-in-council imposing arbitrary and wholly unwarranted restrictions on trade" would be abandoned. The amendment concluded with a reaffirmation of the British preference policy of the Liberal party since 1897, in accordance with which the Liberal budget of 1930, the last of the former administration, had been framed. The carrying out of its provisions, it was declared, would have secured for Canadian products advantages in British markets "immeasurably greater than any they can hope to obtain under the proposed agreement." The value of the preferences accorded under

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the latter was seriously questioned. Was not the preference on wheat, copper, zinc or lead rendered largely valueless by the provision contained in Article 4 to the effect that the duties may be removed if at any time Empire producers of these commodities are "unable or unwilling to offer them on first sale in the United Kingdom at prices not exceeding the world prices and in quantities sufficient to supply the requirements of the United Kingdom consumers"? Then again, as regards the free entry into the United Kingdom market of eggs, poultry, butter, cheese and other milk products, notice was contained in Schedule A that this was likely to be cancelled in three years' time. Further, it was declared that by agreeing to maintain the existing spread of preference in favour of United Kingdom products, Canada had tied her hands so far as negotiating trade treaties with other countries was concerned.

As regards the so-called concessions granted by Canada, it was pointed out that 139 out of 223 tariff changes* were increases, and increases in a tariff already much higher than the Liberal party believed to be sound. Nothing, it was declared, could be more unwise at a time when by common consent the crying need was lower tariffs and greater freedom of trade throughout the world, as Mr. Baldwin recognised when he advocated, in his opening statement, the increasing of Empire trade by lowering tariffs within the Empire, rather than by raising tariffs against other countries. The latter course, in so far as it had been taken at the Conference, must result in retaliatory tariffs and consequent restriction of trade.

But not merely was the bargain attacked as a bargain, and for its effect on the general world trade situation. The whole principle of the making of bargains between the different Empire countries was attacked as alien and inimical to the spirit of the Empire. It involved inter-

* The 139 increases include 49 cases in which there was a reduction in the British preferential rate as well as the increase in the general and/or immediate rate. (See Mr. Bennett's speech, Canadian Hansard, October 12, 1932, p. 126.)

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ference, direct or indirect, by one Empire country with the domestic fiscal arrangements of other Empire countries, a derogation from the complete fiscal autonomy of each which was unsound and even dangerous. The fact is that the Liberal party sees in the Conference agreements an attempt by those who failed to realise their dream of a consolidated political Empire to create in its stead "a unified economic Empire *contra mundum*." The words are those of *The Manitoba Free Press*, the most influential journal in western Canada. Colour is given to this idea by language used by Lord Hailsham and Mr. Chamberlain to the effect that, with the Conference of 1926 and the Statute of Westminster, most of the old ties had gone by the board and that it was imperative to replace them by economic ties. Mr. Bennett, in a speech made shortly after the Conference, spoke of nations outside the Empire being "asked to pay some tribute for the privilege of trading within the Empire." This whole way of thinking, the desire for a species of imperial *Zollverein*, is, in Liberal eyes, misguided and inimical to the unity of the Empire.

Enough has been said to show that the conflict of opinion between the parties on the whole principle of the agreement is fundamental. The press throughout the country has taken its cue from the party leaders and the Conference agreements seem certain to be made an issue at the next election, second only in importance to the question of unemployment. Meantime the agreements will undoubtedly be approved by Parliament, and so far as the public is concerned, judgment will be reserved until it is seen what measure of relief they bring from the increasingly heavy burden of unemployment.

II. THE RAILWAYS: THE ROYAL COMMISSION'S REPORT

THE report of the Royal Commission appointed to inquire into railways and transportation in Canada, which had been awaited with much interest, was tabled in Parliament on October 6. The report is unanimous. It

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makes a volume of 115 pages, and includes diagrams, tables and maps.

The origin and nature of the railway problem have already been discussed in these pages.* Canada is a country which has special need of extensive facilities for transportation ; yet a small population, scattered over a large area, has entailed a proportionately heavy investment. Other causes have also contributed to make the cost of transportation agencies—and more particularly the railways—a matter of the gravest concern.

Given wide terms of reference, the Commissioners have made a careful study of the causes and nature of the present situation. The railways, as offering by far the most serious problem, have received the greatest attention ; but road, air, and water transportation—both in themselves and in relation to the railways—are also discussed. At this time of world-wide economic depression, railways in all countries have suffered from heavy declines in profits—if indeed any of them have achieved profits at all. Canada is no exception, as the present report shows all too clearly. In 1928, the peak year, the Canadian Pacific Railway had a net income, after charges for hire of equipment, joint agreements, etc., had been met, of \$61,864,295, and the Canadian National Railways a net income of \$44,449,780. In 1931 this had dropped in the case of the former to \$30,267,126, and in the case of the latter railway to a deficit of \$5,282,650. The weakened financial position of both railways gives cause for worry ; but in the case of the Canadian National—due in large part to causes beyond the control of its officers—there is a direct drain on the Treasury. At the end of their report the Commissioners

feel compelled, as a matter of public duty, to strike a serious note of warning to the people of Canada. Unless the country is prepared to adopt the plan we have proposed, or some other equally effective

* THE ROUND TABLE, No. 86, March 1932, p. 384.

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measures to secure the efficient and economical working of both railway systems, and thereby not only reduce the burden on the Federal Treasury but improve the financial position of the privately owned railway, then the only courses that would be left would be either to effect savings in national expenditure in other directions, or to add still further to the burdens under which the industries of the country are suffering, by the imposition of yet further taxation. Failing the adoption of one or other of these courses, and there are obvious limits to their application, the very stability of the nation's finances and the financial credit of the Canadian Pacific Railway will be threatened, with serious consequences to the people of Canada and to those who have invested their savings in that railway.

The Commission point to extravagance and unwise competition between the railways; both companies, for example, are held to have constructed too many branch lines. In hotels, too, both have been more optimistic than wise. The Canadian National is said to have been particularly extravagant, owing in part to its peculiar relation to the public. Throughout the report unrestricted competition and the waste that results from it are stressed; and it is the lesson drawn from this that has largely determined the recommendations.

While the two railways may have been in part responsible for their own troubles, there are also other important contributory causes, as appears from the following summary given in the report :—

1. The over-development of railways beyond the immediate needs of the country.
2. Aggressive and uncontrolled competition between two nationwide railway enterprises, a competition the more disastrous in that one of the competitors was publicly owned and supported by the full resources of the Dominion.
3. The reactions of the world trade depression which began in 1929 and has progressively increased in its severity with each succeeding year.
4. Competition from other forms of transport, notably road transport.
5. Inelasticity of freight rates and railway practice generally, which prevents prompt action in the meeting of falling revenues and dealing effectively with competition from other forms of transport.

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6. Contractual arrangements with labour organisations which set up a rigid wage scale and inflexible labour practices generally.

7. The special disabilities of the Canadian National Railways due to (a) assumption, through Government action, of liabilities of insolvent railway systems for reasons of national credit ; (b) large capital expenditures for improvement of the physical condition of absorbed systems ; (c) political and community pressure on the management arising out of direct Government control.

The chapter entitled "Proposals and Remedies" is, of course, the one which will be of the greatest interest. The Commission dismiss the suggestion for the amalgamation of the two railways on the ground that a monopoly is in this case undesirable ; and for the same reason they reject the suggestion that the Canadian Pacific should lease the Canadian National either in perpetuity or for a term of years.

In the framing of their recommendations the following governing considerations have been borne in mind :—

(i) The identity of the two railway systems should be maintained.

(ii) The management of the Canadian National Railways should be emancipated from political interference and community pressure.

(iii) Machinery should be provided for co-operation between the two systems for the elimination of duplicate services and facilities and the avoidance of extravagance.

(iv) The attainment of a scale of economies which will bring the burdens of the National system within reasonable dimensions and effectively check extravagant and costly operation.

(v) Reasonable protection for the privately owned undertaking against arbitrary action by the publicly owned undertaking which might unfairly prejudice the interests of the privately owned undertaking.

The main recommendations concern (a) the management of the Canadian National Railways, and (b) co-operation between the two railways.

In place of the existing Board of Directors of the Canadian National, the Commissioners advise three trustees, to be appointed by the Governor in Council, and to have all the powers of the old Board. The chief operating officer

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should be the president, appointed by, and responsible to, the trustees. The trustees would make an annual report to Parliament. They would control the annual budget and apply to Parliament, through the Treasury Board, for any money required.

In order to enforce co-operation between the railways, the Commission advise placing a statutory obligation upon the railways to confer at regular intervals to arrange for the removal of wasteful competition or practices. For this purpose the Board of Trustees of the Canadian National and three directors of the Canadian Pacific should confer. In case of failure to agree, the case might be submitted to a new body to be called the Arbitral Tribunal, composed of the Chief Commissioner of the Board of Railway Commissioners and one representative from each of the two railways. The scope of the Arbitral Tribunal is sketched : it may act either as a court of appeal from the conference of railway boards, or be invoked by either railway or the federal or provincial Governments.

It is understood that legislation to carry the above proposals into effect will be introduced into Parliament, and it may be assumed that it will pass both houses. As to the wisdom of the proposed machinery it is not easy to give an opinion. Given the right trustees (and the Commissioners plead for them) and the right president, the internal management of the Canadian National might prove able to overcome some of the great difficulties it would of necessity have to face. But with such a small board much must depend on the choice of personnel. No one can well deny the need of co-operation, but the machinery suggested for this purpose is new and can only be proved in practice.

On the whole the report has been well received. It is perhaps a good sign that some newspapers cry that the Canadian Pacific, and others that the Canadian National, is in danger. Some unfortunate, and apparently unnecessary, phrases have upset the more zealous champions of public

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ownership ; but for the most part the Commission have steered well away from the dangerous ground of dispute over public and private ownership. That perennial controversy may have to be settled one way or the other in the future, but for the present there seems no alternative to the continuance of the two systems side by side.

III. THE ST. LAWRENCE WATERWAY TREATY*

ON July 18 last, the St. Lawrence waterway treaty was signed at Washington on behalf of their respective countries by Major Herridge, Canadian Minister to the United States, and Mr. Stimson, the American Secretary of State. The agreement clears the way for the joint construction of a 27-foot channel for navigation from Montreal through the River St. Lawrence and the Great Lakes, and for the development of some five million horsepower of electrical energy in the river between Montreal and Lake Ontario, four million of which will be controlled by the provinces of Ontario and Quebec, and one million by the State of New York. If the treaty is ratified by the Senate of the United States (to which by common consent it is to be first submitted) and by the Canadian Parliament, there will be brought to a close a process of discussion, investigation and negotiation in both countries extending over a period of some thirteen years, and involving political and engineering problems of the most complex character. The treaty is worthy of study, if for no other reason, as an example of the possibilities of international co-operation in the handling of a work of great magnitude for the common benefit of both parties. From the constitutional point of view it has an interest as the negotiation was carried on directly between the two Governments, and especially through the agency of the Canadian Minister in Washington

* See THE ROUND TABLE, No. 72, September, 1928, p. 832 ; No. 81, December, 1930, p. 172 ; and No. 85, December 1931, p. 159.

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and the American Minister in Ottawa. This is the first treaty to be negotiated in this way.

No information regarding the terms had reached the public, and it may safely be said that Canadian advocates of the waterway were agreeably surprised, since ample concession seems to have been made on every point that could be raised by even the most zealous guardian of Canadian rights. The apportionment of the cost of construction, the complete guarantee of Canadian sovereignty in Canadian territory, the recognition of Canada's ownership and control over electrical power produced within the Canadian boundary, and the settlement of the vexed question of Chicago's diversion of water from Lake Michigan through the Chicago drainage canal, were probably the vital points at issue, and on each of these Canadian interests have been fully protected.

The treaty has specific reference only to the international section of the River St. Lawrence, *i.e.*, the stretch of 115 miles, between Lake Ontario and the town of Cornwall, which is traversed by the international boundary line. Construction here is to be carried on in closest co-operation, and in part as a joint enterprise. The remaining portions of the 2,000-mile waterway are to be completed by the two countries independently: Canada is completing a 35-foot channel from Montreal to the gulf, and she declares her intention in the treaty of completing, by the time the work in the international section is done, the canals in the Lachine and Soulanges areas which lie immediately above Montreal, and the new Welland Canal. The Beauharnois Canal in the Soulanges section is under way and has been declared by order-in-council an integral part of the project, and the Welland Canal was formally opened on August 5 last. Similarly, the United States undertakes to complete works which are necessary for the improvement of the channel throughout the Great Lakes system. The American Government has for years been engaged in this work, some of it on the Canadian side of the boundary. The

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cost of works necessary for navigation and those necessary for both power and navigation is to be divided equally between the two countries, each receiving credit for expenditure already made. Expenditure on works necessary for power alone is to be provided for by the State or provincial Government controlling the water power in question. For work already done, the Dominion Government receives credit to the extent of \$128,000,000, the most important item being the new Welland Canal. By an agreement with the province of Ontario, completed when the treaty was in its final stage, the Dominion Government is also to receive a sum of \$67,202,500 as the share attributable to power in the works necessary for both power and navigation on the Canadian side of the boundary. The total result of such adjustments is that the Dominion Government is obligated to an expenditure of only \$38,071,500 out of a total estimated expenditure of \$543,000,000.

The treaty has been framed with the greatest care to provide for co-operation in the construction of works in the international section, while at the same time retaining guarantees of the sovereign rights of each country within its own territory. Following the plan originally favoured by the Canadian consulting engineers, two dams are to be built in the international section, one at Chrysler Island, giving a head of 25 feet of water, the other at Barnhart Island, giving a head of 60 feet. The side canal for navigation at Chrysler Island is to be on the Canadian side and is to be built, owned and operated by the Canadian Government; that at Barnhart Island is to be on the American side, built, owned and operated by the United States. The dams are to be built by the United States, but Article V contains a specific statement that construction of such works by one country in the territory of the other shall not confer proprietary rights or any claim to jurisdiction, and that such works shall constitute a part of the territory of the country in which they are situated. Alter-

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native canals may in future be built by either country on its own side of the boundary. Furthermore, it is specified that neither country can use more than half the water available for power in the international section, so that Canada's right to her full share of power is amply protected.

There can be little doubt that the treaty would have been unacceptable to Canadians in general had it not settled the question of Chicago's diversion of water from Lake Michigan. It provides that, by the end of 1938, the diversion through the Drainage Canal must be reduced in accordance with the decision of the Supreme Court of the United States of April 21, 1930, to an annual average of 1,500 cubic feet per second, instead of the present average of over 8,000 c.f.s. Incidentally, 1,500 c.f.s. will be sufficient for the projected 9-foot channel from Lake Michigan to the Mississippi. It is provided that future proposals for diversion from the Great Lakes System or the international section of the river must be submitted to the International Joint Commission. It is worthy of note, also, that Lake Michigan, which lies wholly within the United States, is included specifically by the treaty as part of the Great Lakes System. This is in contrast to the Boundary Waters Treaty of 1909, under which Lake Michigan was left outside the scope of the International Joint Commission.

The treaty has aroused, so far, more of favourable than of adverse comment in both countries. This is, however, no guarantee of its ratification, and it will no doubt meet with powerful opposition both at Washington and Ottawa. In the United States it has been almost wholly out of politics during the presidential campaign. The platform of each party expressed formal approval of the waterway. Mr. Roosevelt, as Governor of New York, strongly advocated the development by New York of its share of power in the international section, which can only be brought about through the present, or some other, agreement with Canada. He has also made the judicious statement that

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he believes that both the St. Lawrence route and its chief rival, the proposed ship channel through New York, from Lake Ontario to the Hudson River, will be needed in time. Mr. Hoover has been a consistent advocate of the St. Lawrence project, but it is unlikely that this will either make or lose many votes for him. Active preparations both to support and to oppose the treaty before the Senate are, however, already being made by interested parties. By some sections, which see in it no benefit to themselves, it will be opposed probably on the ground that it will cost too much, especially at such a time as the present, that it has conceded too much to Canada, and that the commercial advantages to be expected from it are of little value. Powerful opposition may be expected from those interested in the Chicago diversion and in the route to the Hudson River. The president of the Buffalo Corn Exchange expressed the opinion, for example, that the eventual effect of the St. Lawrence waterway would be "to make Buffalo a side port to the water commerce of the Great Lakes." While the prospect seems to be in favour of ratification, it cannot be denied that the necessity of obtaining a two-thirds vote makes the outcome uncertain.

The prospect of ratification is less uncertain in Canada than in the United States, although here, too, there is both indifference and open opposition. For the most part the Maritime Provinces, the Prairie Provinces, and British Columbia have displayed a lack of enthusiasm for the project in spite of some exceptions to the general rule, such as the consistent support of the *Manitoba Free Press*. Premier Taschereau and his Government in Quebec have been unremitting in their declarations of opposition. Mr. Taschereau has repeatedly denounced the project and a possibility of a treaty with the United States as a menace to the commerce of Montreal, as an infringement of the constitutional rights of Quebec, as a threat to Canadian sovereignty, and as an unwise concession to American industrialists and power magnates who otherwise would be

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forced to come to Quebec for cheap electricity. The Conservative *Montreal Gazette* has most persistently upheld the same view, while the Montreal Harbour Commission has, on the other hand, strongly advocated the scheme as one that would greatly benefit the commerce of Canada's leading port.

In the light of such contradictory views the following expression of opinion by Premier Bennett with regard to the opposition to the treaty is of more than usual interest. It is quoted from his public statement to the press which accompanied the announcement of the terms of the treaty :

In respect to such opposition, the Government has come reluctantly but inescapably to the conclusion that it was inspired solely by the fear that certain monopolistic and class privileges would thereby be injuriously affected. . . . The waterway is for the people of Canada. The water power incidentally developed is for the people of the provinces of Ontario and Quebec. And this Government will not tolerate interference by big interests and their allies with our sworn duty to the country as a whole. . . . Those who prefer their own welfare to their country's may expect just that measure of consideration which their actions merit. Under our confederation no province can demand that the natural rights of another province shall be denied it. The province of Ontario is entitled to hydro-electric power at the lowest price at which it can be developed. The duty of the province of Quebec is not to deny this right to Ontario, but to see that its own people enjoy the same rights.

This is a forthright statement, and there is no doubt, especially in view of Mr. Bennett's support from Quebec in the House of Commons, that he has shown both courage and astuteness in the handling of the treaty and its attendant problems. He committed himself in the election of 1930 to the completion of the waterway, and he has several times declared positively that the possibility that the New York ship canal might be built as an alternative made the deepening of the St. Lawrence a vital necessity for Canada. In the framing of the treaty the objections that Canada's interests would be sacrificed have been avoided with great skill. An agreement satisfactory to both Ontario

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and the Dominion Government with regard to the division of costs and control of power in the international section has been concluded, while at the same time the treaty does not touch directly on Quebec's rights, and the way is thus left clear for a settlement later on with that province alone. Mr. Bennett has committed himself without qualification to support the treaty as essential to Canada's development, as valuable to the Empire at large, and as an enduring proof of the friendship between the Dominion and her neighbour.

The treaty is one of the most important ever made with respect to Canadian interests, and its direct negotiation by the Dominion is an illustration of the enlargement of Canada's powers in respect of her external affairs. If and when the agreement comes before Parliament, Mr. Bennett's determined support will, without doubt, be a powerful factor in its consideration, and its ratification no less than its negotiation will be a tribute to his influence.

Canada.

October 27, 1932.

AUSTRALIA

I. THE OTTAWA AGREEMENTS AND AUSTRALIAN TRADE

OF the three principal problems dealt with at the Ottawa Conference, namely, preferential trade arrangements, currency policy and imperial economic co-operation, the first has attracted by far the greatest attention in Australia. When the Prime Minister made his official statement on the Conference in the House of Representatives on August 31, he dealt exclusively with the trade agreement entered into by the United Kingdom and Australia. The general attitude towards this agreement is perhaps well expressed in the Prime Minister's words, when referring to the trade agreements as a whole : "The basis of the agreements is so wide and so well conceived that upon them the Empire can be developed as an economic unit, while, at the same time, no part of it need sacrifice legitimate aspirations for the maintenance and the development, within its own borders, of all local industries for which there are sound economic prospects." It is already apparent that opinion in Australia is by no means unanimous in support of this view, and as time affords an opportunity for a closer examination of the agreement, there is a school of thought which holds that the policy of protection has been to some extent modified by the Australian delegates at the Conference. Thus the Leader of the Opposition expressed himself in Parliament as "feeling concerned that an agreement should have been entered into which would limit the freedom of this Parliament to legislate on tariff matters." This view is being vigorously pressed by protectionist papers, and has been strengthened by the action of the Government in revoking the proclamation prohibiting the imports of the remaining 24 lines of goods out of the 78 prohibited by the Scullin Government.

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Further, the Government, acting in accordance with the reports of the Tariff Board, has recently reduced duties in respect of 23 classes of goods. Though these reductions in the tariff are made in the national interest, they are opposed by manufacturing and labour interests. The difficulties of making reciprocal trade arrangements involving some reductions in the Australian tariff are thus already demonstrated, and will be but little modified by the fact that the Ottawa agreements give Australia greater preferences than were anticipated by the Australian delegation.

The trade agreement with the British Government grants preferences on three classes of goods. In the first place it provides that the 10 per cent. preference in the British market shall be continued in respect of all Australian goods to which preference was extended under the British Import Duties Act, 1932. This applies to 53 items and the only modifications are in respect of eggs, poultry, butter and cheese, in which the margin of preference is increased. The right of free entry for all these items is guaranteed for three years. At the end of this period Great Britain may impose a duty, but undertakes to maintain the margin of preference. In the second place, additional preferences are given to fruit and wine, which, with sugar, have long enjoyed a tariff preference. The principal Australian exports included in these two classes are butter, cheese, sugar, fruits, eggs, condensed milk and wine. There is a third class, comprising wheat, copper, lead and zinc, to which similar preferences are extended, conditional upon these commodities being offered for sale in the United Kingdom at prices not exceeding the world price. A special arrangement concerning meat is included in the agreement. According to the Prime Minister this is designed to raise the prices of all classes of meat "to a level that will be payable to efficient producers in both the United Kingdom and the Dominions." The method to be adopted is the restriction according to a formula of the

Ottawa Agreements and Australian Trade

imports of meat from foreign countries for a period of five years.* In this way it is hoped to give Australia, in common with other Dominions, an increasing proportion of the British import trade in meat and to raise the price at the same time—rather a double-headed economic penny.

For the years 1926-27 to 1928-29 the commodities covered by this agreement amounted to approximately 25 per cent. of Australia's total exports. Owing to the expansion of the volume of wheat, sugar and butter exports, and the fall in the price of wool, the proportion for the last two years has been greater, being respectively 30 per cent. and 36 per cent. It is difficult, however, to measure the direct benefit of the agreement to Australia. A crude measurement might be based upon a 10 per cent. improvement in the prices of the commodities so affected, and this would give a benefit of over £3 million to Australia. Such a measure, however, is quite misleading. In the first place, wheat, copper, lead and zinc, which are to be sold in the United Kingdom at world prices, account for more than half the exports to which preferences are extended. For these commodities the Prime Minister claims that this arrangement "secures to Empire producers the advantage of an assured market for a large proportion of their output." But all these commodities are exported from Empire countries in quantities in excess of the import demands of the United Kingdom. In these circumstances there cannot be an assured market for the whole supply, though metal producers confidently anticipate benefit from the shelter afforded them in the British market. Moreover, in the case of wheat it may be doubted whether the existing distribution of Australian exports could be profitably altered. Only one-third of our wheat went to the United Kingdom in 1931-32. Australia has been building up an extensive market in the East. Last year Japan, India and China took no less than 43 per cent. of our total exports. With regard to the remaining commodities, it is true that

* The arrangement is described in more detail on page 56.

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the preference will result in a higher return for Dominion producers than for foreign producers. The exports of most of these commodities from Empire countries are in quantities too small to meet the import demands of the United Kingdom ; hence the tariff will tend to raise the price. If this rise in price amounts to the maximum of 10 per cent. allowed by the preferences, the benefit to Australia at present will amount to about £1,250,000 per annum in Australian currency. Some critics are beginning to realise that it will be obtained at the expense of British consumers, whose purchases of all imports of these commodities, whether from Empire or from foreign sources, will be made at a price approximately 10 per cent. above world parity. This imposes costs upon Great Britain, and these costs will in part be passed on to industry in the form of higher wages. Thus export industries from the United Kingdom will experience added costs of production and their development will to some extent be hampered by the arrangement.

The meat proposal is in a class by itself. It involves a restriction of imports from foreign countries on a principle not hitherto attempted by Great Britain or any of the Dominions. It is indeed a marketing control system which, strangely enough, would not be favoured by Australia, or probably by any of the present Dominion Governments, if applied to commodities under her own control. Until the actual plan of restriction is disclosed it is not possible to make detailed comment upon the scheme. The arrangement may be regarded as the only practical method of raising meat prices for both United Kingdom and Dominion producers, but it cannot be effective at present without damage to the economic life of competing foreign producers and to their capacity to purchase British goods and pay their sterling debts. If the policy of restriction is successful it will throw upon these competing countries the main burden of losses caused by the over-supply of meat products. Under the proposal less efficient industries in

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Australia may subsist while more efficient industries in foreign countries are disorganised. That this is an insecure foundation upon which to raise the prices of Empire meat products has been amply demonstrated by the experience of market controls in recent years.

Australia for her part undertakes to maintain the existing margin of preference to Great Britain and to increase the margin on those preferences which "fall short of an agreed formula." She further undertakes not to extend tariff protection to industries unless they can "reasonably be assured of sound opportunities for success." According to Article 10 of the agreement, the duties are not to reach a level that will prevent reasonable competition from the United Kingdom on the basis of the relative cost of economic and efficient production. A proviso to this condition, however, affords special consideration to industries not fully established. Of more importance is Article 11, which provides for a review of existing duties by the Tariff Board according to the principles enunciated in Article 10. Article 11 concludes as follows: "After receipt of the report and recommendation of the Tariff Board, the Commonwealth Parliament shall be invited to vary, wherever necessary, the tariff on goods of United Kingdom origin in such manner as to give effect to such principles." The Government undertakes that no new protective duties will be imposed, or existing duties increased on United Kingdom goods to an amount in excess of the recommendations of the Tariff Board. This gives the Tariff Board a more important place in tariff making than it has hitherto enjoyed, but the arrangement is consistent with the election promises and subsequent tariff policy of the present Government. Further, Australia undertakes to repeal as soon as practicable the prohibitions which have been imposed during the last two years, to abolish surcharges, and, when the financial position is favourable, to reduce or actually remove the primage duty. All the prohibitions have now been lifted and the primage duty on all commodities required in primary production has been removed.

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In so far as the agreement helps to reduce the Australian tariff, it will undoubtedly have a beneficial economic effect. Hitherto, the margin of preference to Great Britain has been increased usually as a result of increased tariff duties against both Great Britain and foreign countries. If the principles of the agreement are strictly adhered to, some duties against Great Britain should be reduced, and the Government will not have unlimited power to add to existing duties, or to impose new duties without investigation by the Tariff Board. This clearly imposes a limitation upon Parliament's power to deal with the tariff. That there are objections to giving such important powers to the Tariff Board is clearly discernible in current protests from protectionist quarters against the present tariff policy. Thus the Associated Chambers of Manufactures of Australia recently issued a statement criticising the Government for its latest tariff reductions. Included in the statement was the following reference to the Tariff Board : " To offer as justification for these and further threatened tariff reductions the explanation that they are in accordance with the Tariff Board's recommendations is inadequate and unconvincing. There are considerations before Australia to-day which overshadow the routine value of itemised examinations undertaken by an advisory body to guide Governments in times of normal prosperity." Clearly the path of a Government which attempts to tamper with the so-called national policy of protection is thorny, and the Ottawa agreement will have to run the gauntlet of severe and organised propaganda both within Parliament and without. It is, however, in the spirit of the agreement that duties should be lowered.

The benefits to be derived from the preferences in the British market cannot yet be fully ascertained, but there is little doubt that they will be much less than is currently supposed. In the past two years there has been a remarkable expansion of the volume of Australian exports, which were 25 per cent. more in 1931-32 than the average of the

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three years 1926-27 to 1928-29. Good seasons are partly responsible for this increase, which has been noticeable in some of the commodities included in the preferential arrangements. But solid effort on the part of the producers lower costs and the rapid increase in the areas devoted to certain industries, notably wheat in Western Australia, sugar in Queensland and meat and dairying in Victoria and New South Wales, have all contributed substantially to expand exports. Thus the volume of wheat exports increased by 83 per cent., butter by 116 per cent., mutton and lamb by 120 per cent., sugar by 105 per cent., and fresh fruits by 78 per cent. With the exception of wheat, a very high proportion of the exports of these goods goes to the United Kingdom. Preference will no doubt assist in maintaining the high volume of exports, but in all these Australian exports there is active competition from efficient foreign producers who will be stimulated to cut their costs in order to overcome the competitive advantage of Australian producers. The net effect will be to reduce the advantage to these producers partly on account of the lower costs of foreign producers, and partly on account of higher costs of British exports purchased by Dominion producers. On close analysis the benefits of the preferences obtained at Ottawa are seen as a diminishing quantity. Their ultimate effects upon Empire and world trade may prove to be very different from what their sponsors are now claiming for them.

II. GOVERNMENT FINANCE AND BANKING POLICY

THE complexion of the Premiers' Conference, which met in Canberra on June 28 to review the progress made under the Premiers' Plan of a year ago, reflected the change effected by the four elections which have occurred since that date. The Federal Labour Government and the State Labour Governments of Victoria and New South Wales had made way respectively for the United Australia party Governments of Mr. Lyons, Sir Stanley

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Argyle and Mr. Stevens, while the United Australia party Government of Mr. Moore in Queensland had yielded place to the Labour Government of Mr. Forgan Smith. The primary object of the Premiers' Plan was that government deficits should be progressively reduced so as to reach a real balance between revenue and expenditure by the end of the financial year 1933-34. The maximum deficit allowed under the Plan was £16 million for 1931-32, reduced after the Hoover moratorium to £12,660,000. Figures of the estimated deficits, which showed that this part of the Plan was not being observed, had been submitted by some of the States* to the previous conference in January, 1932, and the later figures in June confirmed this. The estimates of the budget deficits for 1931-32 were as follows :—

		Before adjustment June, 1931.	After adjustment.	June, 1932.
		£	£	£
New South Wales	..	11,510,000	5,910,000	10,750,000
Victoria		3,060,000	1,610,000	1,700,000
Queensland		1,630,000	760,000	2,050,000
South Australia		2,400,000	1,500,000	1,300,000
Western Australia		1,860,000	1,560,000	1,560,000
Tasmania		220,000	170,000	250,000
		20,680,000	11,510,000	17,610,000
Commonwealth		20,400,000	1,150,000	†1,220,000
Aggregates		41,080,000	12,660,000	16,390,000

† Surplus.

It will be seen from the figures that the chief offenders were New South Wales and Queensland ; South Australia's performance was better than her promise. The Commonwealth Government had managed, mainly by the aid of abnormal collections of income tax, to convert its estimated deficit of £1,150,000 into a surplus of £1,220,000.

In putting these figures before the Conference the Prime

* See THE ROUND TABLE, No. 87, June 1932, pp. 633-34.

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Minister emphasised the necessity for further efforts to achieve their object of balanced budgets. For 1932-33 the Premiers' Plan contemplated a maximum deficit of some £7 million for the States and the Commonwealth together, but the estimates presented by the Treasury officers forecast a total deficit of £20,338,000, made up as follows :—

	£		£
Commonwealth ..	3,500,000	South Australia ..	1,770,000
New South Wales ..	9,548,000	Western Australia ..	1,360,000
Victoria ..	1,950,000	Tasmania ..	160,000
Queensland ..	2,050,000*		

* Estimated for 1931-32. No estimate for 1932-33 is available.

The immediate problems before the Conference were first, to bring the deficits into conformity with the Premiers' Plan, and next to finance them. The Commonwealth Government at once gave a lead to the States by proposing to balance its budget in 1932-33 without any further encroachment on the field of taxation or any assistance from the Commonwealth Bank. This self-denying ordinance contemplated using the surplus from 1931-32, and further savings "involving the most drastic economies in administration," for this purpose. The problem of financing the deficit was bound up with that of providing loan monies for public works for the relief of unemployment. Mr. Lyons communicated to the Conference a letter from the chairman of the Commonwealth Bank which indicated that the Bank was anxious to limit its provision towards the cost of meeting deficits to a sum of not more than £7 million. This would not even meet the deficit of £20 million, and the Bank was ominously silent on the question of further loan funds for dealing with unemployment.

The discussion at the Conference indicated the willingness of all the Premiers to revise their estimated deficits and to adhere to the principle of progressively balancing budgets, but it was clear that they considered it impossible

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to keep within a limit of £7 million for 1932-33. Moreover, it was strongly urged by Mr. Stevens and Mr. Forgan Smith that the budgetary problem should be treated as only one aspect of the larger question of restoring employment, even if it meant widening the scope of the original Plan. It was decided to adjourn the Conference for a few days to allow the Premiers time to revise their estimates and to prepare for a discussion on the general problem of the relief of unemployment. Before the Conference adjourned, however, the following resolution was unanimously agreed to :—

That this Conference affirms its adherence to the principles of the Premiers' Plan of 1931, and undertakes to meet interest obligations, to continue progressively to reduce budget deficits and to conduct public policy with a view to reviving industry so as to restore normal employment to those of our citizens who have neither work nor wages.

When the Conference met again at Sydney on July 4 its deliberations were for the most part conducted in secret, and a great deal of time was occupied in negotiating with the Commonwealth Bank Board. The general discussion on industrial reconstruction was held over for a later conference and the Premiers applied their entire energies to considering how deficits and unemployment relief were to be financed. After consultation with the Commonwealth Bank the Premiers agreed to scale down the total deficits from £20 million to £9 million, but asked the Board to provide not merely the latter sum but an additional £8 million for unemployment relief works and other purposes. The Bank Board agreed to advance about £11 million in new money for deficits, trusts and special accounts, and to allow unexpended balances from 1931-32, amounting to approximately £6 million, to be used, but they refused to grant any accommodation for loan works. The Premiers then agreed to a plan for unemployment relief involving an expenditure of £15 million over a period of three years, beginning with a loan of £7 million in 1932-33. It was proposed that these loans should carry

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special sinking funds and that the proceeds of special taxation for unemployment should be applied to their service. It was not possible to provide funds at once for this programme, and the method by which they were to be found was left undetermined.

These financial arrangements mean that far from restricting the Australian Governments to a modest figure of £7 million, the Commonwealth Bank is prepared to supply a total of £11 million in new money for the year 1932-33, and £6 million in unexpended balances. This is not the first time in the last two or three years that the Commonwealth Bank has issued an ultimatum setting limits to the accommodation it is prepared to give to the Governments, and then has relented. The Bank, no doubt, is still carefully feeling its way in the exercise of its powers as a central bank, ever mindful of its obligations as custodian of the currency and guardian of the portals of sound finance. The Bank has become possessed of large powers as controller of the note issue, sole arbiter of the exchange rate and manager of the Australian price level in the absence of the restrictions of the gold standard, before it has had time to acquire the confidence born of practical experience and knowledge of technique. How far its handling of the financial position in co-operation with the trading banks in the last two or three years has been due to consciously directed policy, it is difficult to say, but that the results have saved Australia from disaster is not open to question. Moreover, the Commonwealth Bank Board's warnings that there are limits to the process by which a central bank can finance deficits and loans for such purposes as unemployment relief have undoubtedly been one of the chief means of bringing home to Australian Governments the danger of unbalanced budgets.

The Australian banking system has indeed shown exceptional powers of resistance to the disturbing elements of the present depression. The contrast with the state of things during the crisis in the 'nineties is nowhere

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more strikingly manifest than in this respect. When at that time most of the banks failed and the few survivors were severely shaken, it is noteworthy to-day that Australian banks, with only two exceptions, have in present crisis continued to carry on business with their doors. One recently established bank of comparatively little importance, judged either by the test of capital or of business, had to close its doors, and is at present in liquidation. The other exception is the Government Savings Bank of New South Wales, which was forced temporarily, through political as well as financial causes, to suspend payment. In that case, however, arrangements were made for the bank to reopen, and it was later absorbed by the Savings Bank Department of the Commonwealth Bank.

It is no mean achievement that the banks have successfully mobilised their resources to meet overseas obligations, financed government deficits and loan expenditure in such a way as to sustain the local price level and mitigate the severity of the depression, and maintained financial stability and confidence in the currency in the face of great difficulties, thereby producing the conditions necessary to enable the country to take advantage of any improvement in world conditions. The Commonwealth Bank provided a solid basis for the banking system of Australia, and the trading banks have, on the whole, worked well harmoniously and in such a way as to strengthen the financial structure and guard us against the worst evils of progressive deflation.

When export prices fell heavily and overseas long-term borrowing ceased, the problem arose of how to procure funds abroad to meet public interest and other obligations amounting annually to about £26 million sterling. In the end the problem was solved by an unprecedented change in Australia's balance of trade. Measured in current prices, exports fell in 1931-32 from a yearly average before the depression of £147 million to £64 million, but imports

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were still more drastically reduced, falling from £150 million to £36 million. This remarkable adjustment enabled Australia as a debtor country to honour her overseas obligations, but the method adopted illustrates the dilemma which falling prices forces upon a debtor country, particularly on one which is largely dependent for its prosperity upon exports. A curtailment of imports into Australia is necessary to supply funds for the payment of overseas interest; but at the same time it reduces the power of Australia's overseas customers to buy Australian exports. While, however, this change was taking place, the Australian banking system provided the necessary funds to meet interest payments. The gold standard was abandoned in 1929, the gold reserve was mobilised, and the export of gold from Australia between 1929 and 1931 amounted to nearly £40 million. In addition to this, the Commonwealth Government found it necessary to raise short-term loans in London to the amount of £37,575,000. About £20 million of this was raised from British banks and the British public, but in the last two years all but £4,500,000 has been absorbed by the Commonwealth Bank and the Australian trading banks, with the result that, while Australia has met all her external obligations in full, the Commonwealth Bank has provided Australian Governments with £30 million in London.

When, as early as 1929-30, the budget deficits amounted to serious proportions, and the increasing army of unemployed was straining the ordinary government resources, the Australian banks, headed by the Commonwealth Bank, came to the rescue and provided funds by way of loan for both purposes. The method used was the issue of 4 per cent. Treasury bills discountable at the Commonwealth Bank. The extent to which advantage was taken of this device may be seen from the fact that the total of Treasury bills rose from £3 million in December, 1929, to £45 million last June. These funds have come mainly from the repayment to trading banks of advances to private

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borrowers, but in part also from the expansion of central bank credit by the Commonwealth Bank. The cash holdings of the trading banks since the mobilisation of the gold reserve no longer include much coin and bullion, but are mainly represented by Australian notes. Through the method of Treasury Bill finance, however, the balances due to trading banks by the Commonwealth Bank have largely increased. Moreover, the note issue grew larger by some 20 per cent. in the years 1929-31, and since then has remained fairly steady. In these circumstances the trading banks have been able to maintain their advances at a higher level than would otherwise have been the case.

The exchange policy pursued by the Commonwealth Bank has also been an important factor in the situation. The departure of Australia from gold was followed by a depreciation of the Australian pound in terms of sterling of some $8\frac{1}{2}$ per cent. In the early part of 1931 this depreciation increased to 30 per cent., and the rate was maintained steadily at that figure until December 1931, when it was reduced to 25 per cent., where it has stayed ever since. This depreciation served to arrest the deterioration in the position of the export industries, because the price of Australian exports in terms of Australian pounds rose, while the cost expressed in the same money felt the effect much more slowly. Exchange policy, therefore, has helped to sustain production for export and given a breathing space for the necessary adjustment of costs to a falling price level. In general, it has prevented Australian price levels from being dragged down with every fall in gold prices. At present, the question as to whether the exchange rate should be manipulated in such a way as to give still further relief to our export industries has become the subject of acute political controversy, but there is no doubt that the alteration in the rate to 30 per cent. depreciation saved those industries from destruction.

Banking policy in Australia during the depression has been distinguished by a liberal spirit in the matter of

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credit expansion, yet the banking position, as shown in the table appended to this article, has remained strong.

Current deposits in the trading banks naturally fell as business declined, but the total of deposits has shown no serious falling off. This is due to the movement in fixed deposits, which increased from 1928 to 1929, maintained their level during 1930 and 1931, and increased again in the first quarter of 1932. The proportion of cash to total deposits, which averaged about 19 per cent. in the years 1926-28, steadily fell during 1929 and 1930, reaching its lowest point of 13.6 per cent. in the third quarter of 1930, and then recovering to its present figure of 18 per cent. Advances to private customers have fallen rapidly since December, 1929, but their place has been largely taken by advances to Governments. The result is that advances increased between 1928 and 1929, began to fall during the latter part of 1930, and by the first quarter of 1932 were back to about the figure of 1928. Under the Premiers' Plan, it was contemplated that the banks should voluntarily reduce by 1 per cent. the interest rates both on deposits and advances. Naturally the process took time, because the banks were not willing to vary existing contracts in such cases as fixed deposits, and reductions of interest on deposits conditioned reductions of interest on advances. No exact figures are available, but it appears that the reduction on new deposits is greater than 1 per cent., while in the case of advances the banks publicly stated that they had effected an average reduction of 1 per cent. as from October 1931, and current indications are that there are further reductions in prospect. The level of interest has been brought into accord with the return on government securities. This return fell as these securities gradually moved back towards par, for example, the 4 per cent. (1938) converted stock, which was quoted immediately after the conversion last year at £83, is to-day quoted at about £100. This fall in interest provides one of the necessary conditions for recovery.

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Methods of finance of this kind, the aim of which is to expand credit and sustain the price level, are inflation in nature; and there is an obvious danger, especially where there is no reasonable prospect of balancing budgets, that they may lead to a rapid and uncontrolled rise in prices. So far, however, the process has been kept under control, and no doubt the financial accommodation recently granted by the Commonwealth Bank to the Australian Governments will be similarly safeguarded. The Australian wholesale price-level of the past two years has been more stable than that of either England or the United States. Australian financial policy has not raised the price level, but it has impeded its fall; the necessary adjustment of costs to falling prices in Australia may be described as deflation offset by inflation.

Australia,
September 29, 1932.

APPENDIX.

AUSTRALIAN TRADING BANKS.

March Quarter.	Gold, Notes and Cash at the Common- wealth Bank. £m.	Current Deposits. £m.	Fixed Deposits. £m.	Pro- portion of Fixed to total. £m.	Pro- portion of Cash to Total Deposits. Per cent.	Advances. £m.	Govern- ment Securities. £m.	Port- folio Assets. £m.
1928 ..	55.75	112.84	164.38	59.30	20.11	224.29	23.32	
1929 ..	53.40	113.13	173.88	60.86	19.17	240.38	23.11	
1930 ..	45.45	96.81	177.61	64.72	15.47	250.28	21.12	
1931 ..	48.87	83.81	179.20	68.14	18.58	247.07	21.87	
1932 ..	53.17	92.25	191.25	67.46	18.74	228.21	40.0	

SOUTHERN AFRICA

I. SOUTH WEST AFRICA

THE Mandated Territory of South West Africa has been severely hit by current economic conditions. It is a large pastoral country in which there is a certain amount of mining. The main activities, however, diamonds and copper, have closed down; the other mines, producing vanadium and tin, operate on a relatively small scale, and consequently the territory is forced to depend solely on its pastoral industry, which, of course, is suffering from the universal fall in prices. Consequently the Administration has had to cut its coat according to its cloth, and the cloth is such that the coat has become a strait jacket to the intense irritation of the people who have to wear it. The normal course of blaming the government for all troubles cannot lead to a change of government, as the Territory has not been entrusted with responsible government. A number of public meetings have, however, passed votes of no confidence in the Administrator and in the Legislative Assembly. There are also various movements to bring about constitutional reforms.

It cannot be denied that ill-considered expenditure in times of prosperity and too extravagant a framework of government have put the Territory into a desperate financial position, and at the same time bound it to the Union by a heavy burden of debt. Until 1930 the ordinary revenue always exceeded the ordinary expenditure. The surpluses were devoted to capital expenditure, for the most part in aid of land settlement, which was of a remunerative nature. This excellent scheme was not maintained. In 1927 the first loan for capital expenditure was made by the Union Government, and since then loans have become an annual

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affair. In 1930, when the expenditure failed to balance the revenue for the first time, the deficit was met by another loan from the Union, at the same time the loan on capital account was doubled. In 1931 there were similar loans, but in the current year, although the estimates again show a big deficit, capital expenditure has been drastically curtailed to what is needed for the relief of distress. As a result of this policy of loans the Territory will at the end of the year be indebted to the Union in an amount of over £2 million, much of which represents wholly unremunerative administrative deficits. The cost of interest and redemption on this debt amounts to £138,000, or well over a quarter of the estimated revenue. A large proportion of the debt is nominally remunerative, as it has been expended in advances to settlers, repayable over a term of years, and to the Land Bank for loans on mortgage; the Land Bank accounts for 1931, however, show that the arrears of interest due amounted to eight times as much as the interest received.

In one respect the Territory is fortunate. Under the German régime nearly all the revenue was obtained from mining taxation. Warned, however, by the post-war slump, the Administration tried to put the revenue on a more stable basis, most of the taxes levied in the Union were introduced and customs and excise became the main prop of the revenue. A persistent policy of land settlement has substantially increased the white population, and with it the revenue from sources independent of mining. But for this change in policy the present slump would have left the Territory with practically no revenue. As it is, it has declined by more than 40 per cent. since 1930, a decline which has been met by a drastic cutting down of establishment charges and civil servants' pay, and were it not for the burden of loan charges, which are considerably in excess of the estimated deficit, these economies would have sufficed to balance the budget.

As regards the constitutional position, the Union

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Government has always taken up the attitude that it expects the Mandated Territory eventually to be incorporated in the Union as a fifth province, and this is the general view in the Union. It is, of course, recognised that such an incorporation cannot take place without the consent of the people of the Territory, and in order to give a voice to the people and make the change easier, the South West Africa Constitution Act has set up a system of government which approximates very closely to the provincial system of the Union. Theoretically the legislature has wide powers, but in fact these powers may not be used in nearly all matters affecting government and administration without the consent of the Union. The chief executive officer, the Administrator, is appointed by the Union Government and independent of the local legislature. Loans may be obtained only from the Union and not in the open market.

Local sentiment in the Territory, however, instead of tending to welcome assimilation, tends to go the opposite way. Criticism of government, natural in times of depression, means criticism of the Union Government, and the opposition to incorporation is strong. The Constitution Act provides for the grant of extended powers to the local legislature in respect of control over the police, education, aviation, the Land Bank, and sales of public lands. These extended powers may be granted on a request based on a two-thirds vote by the legislature. Last session such a request was duly voted and a deputation interviewed the Prime Minister of the Union, who said that he saw no objection to the grant of these powers. He further promised to amend the Constitution Act by making German a third official language, and by facilitating the naturalisation of German settlers. He also agreed to appoint a joint commission to investigate the differences of opinion over administration matters, customs duties, and railway tariffs. None of these things have yet been done.

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One of the chief grievances arises in connection with customs and railway tariffs. The Territory is in the South African customs union, the tariff for which is fixed by the Union Parliament for the encouragement of Union manufacturers. The railway tariff is similarly arranged, South African products being carried at cheaper rates than imported goods. The inhabitants of South West Africa, who are all primary producers, resent these tariffs. They say that they are obliged to pay exorbitant prices for Union products and get nothing in return. As an example, it is asserted that at Swakopmund Natal sugar must be bought at approximately 25s. per cwt., although sugar could be imported from overseas at 9s. 6d. Similarly wheat imported from the Union costs 22s. 6d. a bag plus railway rates, while Australian wheat passes to all West African ports on its way to England at a price of less than 10s. a bag. It is contended that if the Territory were outside the customs union it could by a moderate duty raise all the revenue necessary to balance its budget, and at the same time reduce the cost of living in the Territory. Such a course would, of course, close South African markets to the produce of the Territory, but it is said that existing prices and railway rates in any case practically preclude the export of slaughter stock to Union markets, and that the Territory could more profitably develop the existing overseas export of chilled meat.

It is difficult to judge of the merits of this contention on the official trade figures, as if the Territory were to leave the customs union a general dislocation of trade would ensue ; but *prima facie* a community of primary producers does not require the same tariff for revenue purposes as a country of incipient manufacturers, especially when all prices are necessarily increased by a long railway haul.

Those who advocate separation from the Union are in favour of an understanding with the Bechuanaland Protectorate and Southern Rhodesia. A railway across the Kalahari to link up the Territory with the Rhodesian

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system has already been roughly surveyed, and is estimated to cost £2 million. To Rhodesia such a railway would give an alternative port, and to Bechuanaland a much needed means of internal communication. It is, however, extremely doubtful whether such a railway would at first even pay its running expenses, though it would open up large stretches of Bechuanaland to ranching, and introduce an element of competition into railway rates in Rhodesia, besides improving the strategic position of that landlocked country.

II. THE SITUATION IN SOUTHERN RHODESIA.

The Country and Its People

TWO months ago Southern Rhodesia had, for reasons which will be referred to later, settled down into a condition of despondency unparalleled in the forty odd years of slumps and booms since her inclusion in the Empire. Even now there are parts of the country—particularly those in which no tobacco is grown—to which no ray of light seems yet to have penetrated. Nevertheless, in the rest of the Colony, a cautious optimism quite unlike the usual cheerful, happy-go-lucky reaction of the Rhodesian to good news, has set in. Though this has not resulted in a great deal of spending, except in the drapery stores, and though sundowner parties are still sadly on the decline, the brighter outlook is a factor on the right side. Others are the result of the Ottawa Conference and the probability that the restrictions (due to a recent outbreak of foot-and-mouth disease) on the export of cattle will shortly be lifted. As to the former, Lord Snowden's warnings may yet prove to be right ; as to the latter, there is no certainty. Other causes of the depression, moreover, still exist to counteract the increased profit that is being made from the sale of gold from the mines since Great Britain left the gold standard, for example, the loss of the

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chrome and asbestos markets. There is therefore no justification for any very boisterous optimism. No one seems certain that any of the signs of better times are reliable.

At the 1931 census Southern Rhodesia's European population was 49,910—an increase as compared with the 1926 figure of 27·41 per cent. The native population, which is not accurately enumerated, was about 1,000,000 in 1931—an increase of 17 per cent. since 1926. This increase is partly accounted for by the growing influx of African labourers from Northern Rhodesia, Nyasaland and Portuguese East Africa. During the period 1926-31 20,106 Europeans came into the country and 12,685 emigrated; the natural increase was 3,315. The birth-rate per thousand of the European population in 1930 was 24·2, which is only surpassed among the important countries of the Empire by that of the Union of South Africa with a figure of 26·2. It is much higher than that of England and Wales, which is 16·3. In 1929 the death-rate per thousand children under one year was 56, or the fifth lowest infantile mortality rate in the world—New Zealand's was 34, while for England and Wales the rate was 74, and for the Union of South Africa, 64. In 1926 there were 526 unemployed Europeans enumerated; at the beginning of 1932 this figure had been multiplied by five.

These statistics supply a starting point for a study of the country's present position. Nearly all the Europeans are settled on the high plateaux which cover more than half the country, and the low infantile mortality rate is a fair indication that the soil is suitable for a European colony in the modern sense of the word. This at once differentiates Southern Rhodesia from Northern Rhodesia and the rest of British tropical Africa in the north, the larger part of which has a climate adverse to the permanent settlement of Europeans. On the other hand, there are large tracts of hot, low-lying country in Southern Rhodesia which are suitable only for native occupation,

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and distinguish the Colony from the Union of South Africa which is practically all either subtropical or temperate while another important difference is the high proportion of natives to Europeans in the population—roughly 20 to 1 as compared with 3 to 1 in the Union. These facts, combined with others, put Southern Rhodesia in a position unique in Africa and witness to problems peculiar to hers in the all-important region of native policy and its concomitant economic development.

The increase in unemployment and the small proportion of immigrants absorbed in recent years have led to a search for causes, apart from world-wide economic disturbance. Some pessimistic observers have arrived at the view that the Colony has reached, or nearly reached, its limit regards the absorption of immigrants, and the “natural increase” in its population. A more cheerful attitude adopted by those who recognise other factors in the situation and entertain hopes that it may be possible for the country to support a million Europeans in the not too distant future. Certainly, if a country like Cuba could actually take advantage of the world depression to improve its trade balance, by developing its production of commodities for internal consumption, there does not appear, on the face of it, to be any reason why Southern Rhodesia with her greater variety of products and less enervating climate, should not have used her still undeveloped potential wealth in a similar self-discipline any way instead of continuing to import scores of commodities which could be locally produced. For example, eggs produced locally are at the present time so plentiful that the farmer gets only 9d. a dozen for them, at which price egg-selling is not a business proposition; yet last year we imported, from the Union alone, eggs to the value of £10,249, and at the same time exported some of our own surplus eggs, chiefly to Northern Rhodesia.

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The Native Question

It is a far cry from eggs to fully fledged natives, yet there is no escape from the colour problem. Any attempt to describe present conditions without taking it into consideration would be futile, though its intricacies have frightened many a writer from adding another line to the mass of literature which already exists on the subject. In Southern Rhodesia, however, there is, at least, one encouraging fact. Local native policy is probably the best in Africa. Even Lord Olivier, that ardent champion of the ideal of Africa for the Africans, seems to admit that the natives are not so badly misruled here as in other parts of the continent. The policy of the B.S.A.* Company, which set aside native reserves, was followed up and improved upon by the present Government, which took over from the Company in 1923. Large native reserves "vested in the High Commissioner" are scattered throughout the Colony. In them the basic fabric of native life persists as it was before the coming of the white man. In addition to the reserves, areas have been set aside for native purchase, and the wealthier natives are losing no time in learning the pleasure of land-ownership, after the primitive communal tenure of the reserve. Socialist feeling in the country is not strong enough to have raised seriously the question of whether or not this is a retrograde step. Other areas have been set aside for non-native occupation and for-forestation. There is also a huge "Unassigned Area" and a comparatively small "Undetermined Area." The former is sufficiently described by its name. In the latter natives or others may acquire land, but acquisition by a native automatically places his land for all time in the Native Area, and a European cannot thereafter acquire it.

The above is the result, in the main, of the Land Apportionment Act, which came into force on October 3,

* British South Africa Company.

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1930, and was based upon the report of the Morris-Carter Commission. It was stoutly opposed by the Labour party, a very small body, chiefly on the ground that it did not go far enough towards that rather mysterious goal, segregation. The Rhodesian party deserves the credit for the appointment of the Commission and the passing of the Act referred to, and also for keeping native affairs out of party controversy as far as possible.

The areas of the various classes of land referred to amount to a total of 96½ million acres, made up as follows :—

	<i>Acres.</i>		<i>Acres.</i>
Native Reserves	21,594,957	European Area ..	48,694,697
Native Purchase Area	7,464,566	Undetermined Area	88,540
Unassigned Area	17,793,300	Forest Area ..	590,500

Native Reserves, plus the Native Purchase Area, plus the Unassigned Area, plus half the Undetermined Area give only about 40 per cent. of the total area as the maximum that is likely to be put aside for the natives, who form 95 per cent. of the population. Since, however, the total area is roughly three times that of England and Wales and, judged by European standards, is moderately rich from an agricultural point of view, and highly mineralised in some parts, the density of the population is still very low. Moreover, the native can come into the white area to work, while the whites are debarred from entering the reserves without special permission from the authorities. This permission is rarely granted, and then only when it is clear that entry would be for the advantage of the natives. Local urban authorities also are empowered to set aside areas for native locations from which whites are excluded. The net result is that the natives are well catered for in the matter of land. The good work that is being done under the guidance of the missionaries and the Native Development Department is manifest in better hygiene and better agricultural methods, so that land occupied by natives is

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increasing in productive value, while that set aside for future native occupation can be expected to prove more than sufficient for a very long time to come. That there is nothing to cause an overflow at the present time is proved by the fact that no happier peasantry in the world can be found than that of Southern Rhodesia, and that every year about 60,000 natives from adjoining territories find employment here without causing any economic discomfort to the local natives.

While, however, these enlightened principles of land allocation have made the position of the native ever so much better than that of his neighbour in the Union of South Africa, who, in most parts, was neglected too long, and probably also better than that of his neighbour in the north, who comes into contact with more rudimentary examples of European social organisation, it would be foolish to imagine that the whole colour problem is solved, or that it can be left to solve itself. One new development is that certain very real economic dangers to the white inhabitants are following in the train of the laudable anxiety to improve the social condition of the natives displayed during the last few years.

It must first be explained that the whites are not here as administrators only, as in the West African Colonies. They are colonists who are here for good, and must maintain without much outside support their own high standards of native rule. They cannot be periodically replaced from overseas by the Colonial Office, as are the white officials in British West Africa. The natives have been lifted only a little way out of barbarism—which is a very sordid and unhappy condition, particularly for the womenfolk. The worst thing that could happen, from their point of view, would be for the white inhabitants to leave the country or to sink in the social scale so as to be incapable of wisely guiding them till they can guide themselves.

Two examples only of how the white man's position is being jeopardised by the present policy of *laissez-faire*

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will be given here. Nearly all the white man's manual labour is performed for him by the black man. I need not follow up the general implication of this statement with examples from the later Roman Empire. Take one result alone. In the secondary industries, which are struggling into being in the European towns, there is no room for the white apprentice. Without apprenticeship there can be no skill in a country too small to afford vocational schools. This is one of the causes of white unemployment. There is no black unemployment problem. The other interesting example is provided by the steady decline in recent years of the numbers of cattle owned by Europeans, concurrently with an enormous increase in native owned stock.

From the economic standpoint it is all a question of relative standards of living. The pace of native development cannot be set too fast, else it will defeat its object by ejecting the white settler, who has now become an integral part of the economic structure, and always takes the lead in every department of production and marketing.

Yet it should be possible without hardship to anyone to guide the activities of the native, so that unfair competition resulting from different standards of living would not occur. The first object is, of course, to improve native standards of living. A great deal is being done already in this direction, but there are many features of the present system that require correction. For example, it is not done by giving the native more money to spend. Again, however clean and well-run the town native location to which natives employed in town are relegated, no civic sense can be developed in it. Though they live in greater comfort there than in their kraals, they can play no part in the organisation. For reasons of public health alone, it would be dangerous for European municipalities to allow the natives to organise their own locations, which are in close proximity to the European quarter. At the same time, from mission and government

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schools throughout the country, native tradesmen are coming into European towns, there to compete with the white tradesmen for at least part of every year. For the rest of the year they can retire to their country homes in the reserves. This is all taking place before the natives have risen to anything approaching the stage of civilisation of the white tradesmen.

The time has come when the native should be guided towards building up native towns in the native areas. The Native Affairs Act now in existence is a beginning in the matter of self-government. It provides for Native Councils in the reserves and recognises chieftainship and other native institutions there. While it is good in so far as it seeks to build on native foundations, it is bad in that it is equivalent to hoping for good results in government in Great Britain, after condemning the people to take no part in public life except in the case of rural district councils. The cultural value of the town is entirely neglected, and not enough is made of the fact that the native to-day is not the native of forty years ago. At the same time, native names appear on the same voters roll as European names. This is out of keeping with the principle of gradual education in government. It is a survival from the traditions of the Cape Colony, where the common roll was instituted at the time when public worship of the franchise was at its height. Great numbers of Rhodesians believe that the franchise does very little for the poor and ignorant, and that the native vote in the Cape is a playground for unscrupulous politicians. They hold, therefore, that there is no excuse for not confining the native vote in Southern Rhodesia to the native institutions which the native can understand, gradually widening his "sphere of influence" as he progresses.

The Reform party, which will oppose the Rhodesian party at the general election next year, is not anxious to make party politics of the native question, but it holds that the present Government has made a mistake in resting

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on its laurels after its accomplishment of the Land Apportionment Act. The party is anxious to take steps towards what Lord Lugard has laid down as the aim: "in matters social and racial a separate path, each pursuing his own inherited traditions, preserving his own race purity and race pride; equality in things spiritual, agreed divergence in the physical and material." In Professor Henry Clay's Report on Industrial Relations in Southern Rhodesia occurs the following sentence, which seems to present the Rhodesian party's view—the italics are the writer's: "The relation of advanced and backward labour is much more complementary than competitive. The increased employment of natives increases the number—and possible remuneration—of supervisory, responsible and specially skilled posts *which white men must always fill.*"

Every social and economic problem in the Colony is interpenetrated by the native problem, but, lest the reader should tire of looking at the country from that angle, let us adopt another viewpoint.

Before passing on, however, it should be mentioned that there is another local cause of unemployment besides the one described on a previous page. It is the loss of the chrome and asbestos markets and the outbreak of foot-and-mouth disease already referred to. The usual palliative methods of providing work on roads and public works have been adopted by the Government, but, except for equipping a few prospectors and paying them, none of the large sum voted for the relief of unemployment is being devoted to the development of the Colony's resources in a direct way, and the road programme actually adopted is neither essential nor within the Colony's financial means. This brings up the question of the financial situation.

The Financial and Economic Position

In order to give some general idea of the country's financial position, a summary statement, showing the

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estimated balance of international payments of Southern Rhodesia for the year 1931 is appended. It was elicited from the Government by Captain Downes, an Opposition member during the last session of the Legislative Assembly. The figures were given subject to slight amendment. A glance at this statement will make it clear that the Colony's profit and loss account for 1931 shows a loss of £3,067,000, and its cash account shows that, to meet that loss, it received £187,000 of invested capital and added £2,880,000 to its floating indebtedness.

The premium on gold production has given a fillip to the gold-mining industry, and in an effort to balance the budget a tax has been placed on that premium. Civil servants' salaries were also reduced in November last year.

In 1930 the four largest exports were as follows :—

Gold	£2,224,028	Chrome ore ..	£441,350
Asbestos	620,400	Cattle for slaughter	340,645

Last year foot-and-mouth disease broke out here and there, and the export of cattle to the Union, above all, entirely ceased. Since 1930, too, asbestos and chrome exports have rapidly dwindled away, due, it is said, to foreign competition. Judging from a recent speech by Major Hudson, the acting Premier, the Rhodesian party are resigned to the total loss of the chrome ore export owing to the Colony's distance from a port and from world markets. The Reform party believe that a reduction of 4s. a ton on railage of chrome ore to Beira would have saved the situation, and do not despair of recapturing both the chrome ore and the asbestos markets.

The main industry of Northern Rhodesia until recently was copper mining. The closing down of many of the copper mines owing to the present state of the copper market has had its effects upon Southern Rhodesia, since Northern Rhodesia is Southern Rhodesia's best customer for agricultural products, for locally manufactured articles

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such as soap and oils, and for many articles imported for the purpose of re-export.

The fact that the Union of South Africa is "on the gold standard," while Southern Rhodesia is linked to sterling, is fast killing trade with that Dominion, while the customs agreement between the two territories, which was made before the foot-and-mouth disease broke out here, now operates very adversely to Rhodesian interests. There is a growing demand that the agreement should be revised or abrogated altogether. Southern Rhodesia has, of course, no seaboard, and its natural port is Beira in the Mozambique Company's territory, but the Portuguese administration of that port is such that many exasperating delays occur.

The cessation of the export of chrome and asbestos suggests to the superficial observer—at all events the opinion is fairly widespread—that the interests of the Colony possibly conflict with those of powerful corporations which have a controlling interest, and which may not be ready at the moment to develop these minerals further.

This brings us to the mineral rights question, which has been a battle ground for politicians for many years. Mineral rights are the outcome of British policy. When the scramble for Africa was taking place, the Imperial Government recognised as valid treaties with native chiefs, and the British South Africa Company's agents secured concessions from the Matabele chief Lobengula. A charter was granted to the Company, recognising the rights that it claimed to have acquired from Lobengula, and other executive Acts of the British Government, including the Letters Patent conferring a Constitution on the Colony in 1923, reiterate this recognition by implication. The Rhodesian party has, until this year, held to the view that the Company has an indisputable title. At the last session of the Assembly, however, the Premier, Mr. Moffatt, under strong pressure, took the line that, though the Government was convinced that the minerals belonged

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to the Company, and that even a legal decision affirming this would not check the grumbling that went on in the country because a commercial company owned the minerals, he thought that the matter should be decided by a competent tribunal. The Company was asked if it would go to arbitration. It refused, and made a counter request that the Government should give an unequivocal recognition of its rights to the minerals. This the Government refused to do. In his *Dual Mandate in British Tropical Africa* Lord Lugard has pointed out the folly of vesting the land or minerals of an African State in a commercial company. Be that as it may, there are many who think the original vesting of mineral rights in the Chartered Company was sufficiently vague in its terms to admit of legal controversy as to its validity. The result of any action which may be taken will, therefore, make interesting reading. No provision was, however, made in the estimates for 1932-33 for taking the case to the Privy Council.

Rhodesia, being land-locked, is absolutely dependent on its railway system. This is controlled by the B.S.A. Company, which, in turn, claims the ownership of the minerals, not only in Southern but in Northern Rhodesia as well, and has also the citrus fruit export trade in its hands, besides large interests in almost every field of production. The scene is certainly laid for a conflict of interests between the Colony and the Company, and it would be futile to ignore that fact. The peculiarity of the Rhodesian economic field is that it contains practically only one capitalist—the powerful financial group which comprises the B.S.A. Company and its subsidiary companies. Possibly the high cost of living and the high scale of wages which have obtained in the Colony ever since the white man came, in 1890, would have been brought down, if either Rhodes had been spared to guide the affairs of the Company, or if the State could have taken over the railways when responsible government was granted. The giant, Mono-

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poly, however, has now been with the people so long that it is only in hard times like the present that they begin to stir uneasily under his rule and to wonder how far he will go. Even a slight trade revival before the next general election will probably have a soporific effect. The Reform party's view is that holders of monopolies can be obliged to work them beneficially, that greater control over the transport system must be obtained by the Government, and that business men abroad are wrong to believe, as they seem to believe, that the Colony is the special preserve of the B.S.A. Company. It proposes a publicity campaign to advertise Rhodesia's enormous mineral resources, and hopes thus to attract capital for development purposes.

Future Prospects

A few of the major difficulties of the country have now been presented. The people might have gained more confidence in the Government if the appended summary of international payments had been discussed at the last sessions of the Assembly and a frank statement made by the Government in regard thereto. The Government, however, decided to shelve the matter, and produced a budget which showed a deficit for the first time in its long term of office. It pinned its faith to the Ottawa Conference, where it was represented by Mr. Moffat, and the Treasurer, Mr. Fynn. At the Conference the most striking preferences gained for Rhodesian exports were on copper, citrus fruits, dairy produce and maize, though it remains to be seen whether maize can be produced at a profit for export even with the aid of the preference. The existing preference on tobacco was retained, which is a matter for rejoicing, since tobacco is the one crop which can be grown over almost the whole Colony on the sand veld that forms 80 per cent. of its surface. It is likely to be a fairly stable export commodity as long as people smoke. The dairy industry is being developed, and, the Reform party believes, can be developed still faster. It

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has already been stated that the export of copper and citrus fruits lies in the hands of the B.S.A. Company. The Company, therefore, may well feel pleased with the results of the Conference.

The Labour party is not strong enough to gain a majority at the next elections in a Legislative Assembly of thirty members, but it is quite probable that it will hold the balance of power. Its policy is a less thoughtful and less complete edition of the Reform party's, and has little resemblance to the policy of any European socialist party. This is to be expected in a country where there is really only one thing to be done, and that is to develop natural resources. Natural resources cannot be developed without capital, and capital has a way of bringing with it the ideas of the capitalist. Both the Reform and the Labour parties are socialist in tone in so far as they hope for greater activity from government, and in seeing that Capital with a big C does not take the bit between its teeth.

The Reform party has been struggling to produce a sound policy for many years, but has been handicapped by changes in its leadership and numerical weakness in the House. At the beginning of the year, however, it added three Independents to its ranks and thus brought its numbers up to seven. Two of these Independents formerly belonged to the Rhodesian party. One of them was Mr. G. M. Huggins, F.R.C.S., probably the most popular figure in public life in the Colony, who was elected leader of the Reformers at their Congress last July. The party thereafter began to attract new members, particularly from among the younger men, and, though some of the lesser lights have a good deal of leeway to make up before they gain public confidence to the extent that their leader has it, it can fairly be said that the chances are even in the coming contest. The Reformers have begun their campaign early. The Rhodesian party is holding its hand, so that it cannot be said what new features there will be in its policy. Two straws which may indicate the way the

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wind is blowing are that, whereas about a year ago the Premier received a vote of no confidence from a meeting of his constituents, Mr. R. A. Fletcher, who was dismissed from his office of Minister of Agriculture and Lands by the Government at the beginning of this year, was assured by his constituents that they would support him, whatever party he stood for.

The Reform party has long been working for that amalgamation of the two Rhodesias which the Chartered Company long ago suggested. Latterly, the Rhodesian party leaders have begun to toy with the idea. The vast tract of hot infertility that is Northern Rhodesia is a big responsibility, but time and the copper market may justify the step, especially if Nyasaland will join in. A British central African federation of States sounds attractive, though it will always have to be remembered that climate and native policy will make for different principles of administration in the north, where the White Paper policy is accepted. If local politicians of all parties are to be believed, Rhodes's dream of unity from the Cape to the Zambesi seems to have been nothing but a dream.

An outlet to the west, either to Walvis Bay in the Mandated Territory of South-West Africa or to Tiger Bay in the Portuguese colony of Angola, is the ambition of the Reform party. If a railway is built, it should be State-owned. It would be a kindly act on the part of Great Britain to render assistance. About £2 million would be required to connect the Colony with Walvis Bay, though Rhodesians realise that this route might raise difficult problems in relation to the Imperial Bechuanaland Protectorate and the Mandated Territory. Probably the route to Tiger Bay would be preferable along a railway corridor bought either from the Union or acquired from Portugal, which might possibly find the cession a convenient method of liquidating part of her debt to Great Britain.

Southern Africa.

October, 1932.

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APPENDIX

THE ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS OF SOUTHERN RHODESIA.

	Credits. (Exports visible and invisible).	Debits. (Imports visible and invisible).	
	£ 1,000	£ 1,000	£ 1,000
I. Merchandise	3,600	5,493	(—) 1,893
II. Bullion, specie and currency notes	2,443	192	(+) 2,251
III. Interest and dividends	42	1,862	(—) 1,820
IV. Other current items (<i>e.g.</i> , transport charges on goods, expenditure of foreign tourists, etc.) ..	1,559	3,164	(—) 1,605
	<u>7,664</u>	<u>10,711</u>	<u>(—) 3,067</u>
CAPITAL ITEMS.			
I. Long term operations. Capital in- vestments within and without the Colony, including sinking fund payments and Government assets held abroad	282	95	(+) 187
II. Short term operations. Net in- crease of floating indebtedness	2,880	—	(+) 2,880
Total capital items	<u>3,162</u>	<u>95</u>	<u>(+) 3,067</u>
Total, all items	<u>10,806</u>	<u>10,806</u>	<u>—</u>

NEW ZEALAND

I. THE OTTAWA CONFERENCE

THE leading event of the quarter under review was of course, for New Zealand, as for most of the Dominions, the Ottawa Conference—a drama enacted from her gates. The decisions arrived at were necessarily kept back until the last moment, and it is now apparent that the news cablegrams* that reached us during the Conference were for the most part pure surmise, tending to mystify, not to mislead, the reader. The story which gradually emerged from them, as far as New Zealand was concerned, bore little relation to the policy outlined when the delegation left our shores. Nor did the mailed accounts, which arrived some weeks later, do much to remove the obscurity. It was only when the delegation returned that the facts became clear.

Our last article,† it will be remembered, told how, at the eleventh hour, it was decided that Mr. Coates should lead the delegation, and it described the preparations for the Conference which, although there was no opportunity for regular debate in Parliament, were much more thorough than on any previous occasion. The primary producers and manufacturers, who were directly represented on the delegation, took part in the preliminary work as well as the Government, and in March the committee of the Cabinet set up months before to study the agenda, heard the views of the various interested sections of the community.

The Government's proposals were outlined by Mr. Forbes on June 25. The facilities Great Britain might accord to the Dominions were, he said, "the maintenance and extension of the preference at present granted by her

* New Zealand relied for her news upon Australian press correspondents.

† THE ROUND TABLE, No. 88, September 1932, p. 931.

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and the further opening of the United Kingdom market by the regulation of the importation of foreign products into that country." "It is a matter of general agreement," he continued, "that tariff barriers, rising higher as they have since the war, are a cause of trade dislocation and depression. We welcome any promise of a lessening of restrictions, so as to permit of a freer exchange of goods in the normal course of trade."

From this casual reference no one would have guessed the important part that the idea of regulating imports into Great Britain was destined to play in the debates at Ottawa. It was, however, challenged at the time by a far-seeing representative of the farming interest. Mr. H. D. Acland, their president, warned the Sheepowners and Farmers Federation that "the principle of the quota in any form was a dangerous one. . . . Once that was applied to foreign produce," he pointed out, "it was only a step to apply it to Dominion meat and butter. Where would the balance of New Zealand lamb, butter, etc., be marketed, if Great Britain did not take it?" There were, he remarked, really two British Empires, a political and an economic one, and the British elector was not likely to forget that the Argentine was a member of the economic Empire.

The Conference had already made some progress before it was possible for us, at this distance, to guess the dominant issues. It appeared, however, that Mr. Coates's anxiety to secure a full market for New Zealand lamb had placed him firmly by the side of Mr. Bruce, who, for his part, was trying to get an assured market for Australian beef; but how this had come about was by no means obvious. Nor did a full report of Mr. Coates's opening speech, which reached New Zealand on August 16, make the position any clearer. The following passage gives the gist of the speech:

It is, we think, necessary (said Mr. Coates) that, in the present emergency they [tariff preferences] should be aided by some more direct means. For this reason we support . . . the judicious application with respect to selected commodities of the principle of the quota

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to govern the importation of non-Empire products into Empire markets. In no case do we think the quota . . . should apply to products of the Empire ; but the end can be best achieved by taking power to restrict the volume of foreign imports. This is an unusual course, but prevailing conditions are so highly abnormal that we are forced to regard it as necessary. . . . At the appropriate time we shall be prepared to discuss the application of the principle of the quota to selected articles of import into New Zealand. New Zealand is concerned at the threatened flooding of the markets on which we rely ; and in respect to dairy produce, meat and fruit we think that a quota on imports from foreign sources into the United Kingdom is urgently necessary.

In the absence of any trustworthy account of the debates, or of any official statement, there was a distinct tendency to criticise Mr. Coates's attitude as being rather too insistent, too ready to ask, and too apt to lose sight of the reciprocal aspect of the negotiations. Even newspapers which had consistently supported him joined in this chorus. No doubt, one of them suggested, the Australian press correspondents, in their desire to make a graphic story out of insufficient material, had exaggerated the Dominions' demands and the way in which they were put forward, an impression that was strengthened by Mr. Baldwin's statements, which read like dignified reproofs of the importunities of the overseas delegates.

We do not believe (said the *Dominion* on July 30) that Britain would have stated the hard facts if the Dominions had not asked so much and apparently been so oblivious of what they were already receiving. There seems no limit to their pretensions For the past week the Dominions' representatives seem to have been wholly occupied with agreeing on what they shall ask of Britain. It is high time they remembered the mutual principle and returned to reciprocity in spirit and in deed.

Another strong Reform paper, *The Press*, of Christchurch, wrote as follows :

The meat scheme is only one example of proposals which involve for Great Britain the consideration of a wide range of issues. She is still the leading commercial nation in the world and it is far more important to the Empire that she should maintain this supremacy than that the Dominions should enlarge their share of her trade.

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It was not surprising, in view of the tone of the cablegrams, that this critical feeling persisted here throughout the Conference. As late as August 15 the *Otago Daily Times* insisted that the Dominions must make sufficient concessions to justify their requests for assistance. The *Dominion* felt that, if the reports of the Conference were correct, Mr. Bruce and Mr. Coates were "displaying almost an excess of zeal." The *New Zealand Herald* asked its readers to appreciate the difficulties of Great Britain in meeting such demands. These are all Reform papers; the *Independent Evening Post* also on August 16 stigmatised the negotiations as "inglorious warfare."

It is only fair to say that this criticism of Mr. Coates was to some extent prompted by resentment at the propaganda which had flooded the country from the moment the Conference was first mooted until the departure of the delegation. It was also partly due to that feeling of almost passionate attachment to Great Britain which is always a factor in New Zealand public opinion. The average New Zealander, with no personal interest at stake, was rather shocked to find New Zealand apparently aligned with Australia and South Africa in opposition to Great Britain. But the prominence given by the press to the demand for the quota is now seen to have been exaggerated—it took the public by surprise. They were, no doubt, themselves to blame for this, for the quota proposal had been definitely before the country ever since the Government invited suggestions for the Conference. The *New Zealand Gazette*, for instance, asked people on March 31 to consider the question whether "any action by way of quota schemes, bulk purchase schemes, or otherwise, should be adopted in any part of the Empire to restrict, limit or control the quantity of goods which may be imported or exported from any part of the Empire." But with the information they had, how could the uninitiated public of New Zealand possibly have known that the British delegates had, from the outset, refused to entertain any idea of a tariff

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on foreign meat, but were themselves insisting on a limitation of imports. It is obvious that Imperial Conferences thus reported run a risk of being wrecked on the rocks of a misinformed public opinion.

When the cabled précis of the twelve agreements between the various units of the Empire appeared in our press on August 22, there was a general chorus of satisfaction. Perhaps it was the reaction from the suspense which, according to the cablegrams, marked the last days of the Conference that banished the disposition to be critical. Mr. Forbes generously acknowledged that success "was rendered possible only by the broad Empire view taken by the British delegates, and adopted by the Conference as a whole. In the absence of such a spirit the interests of the British Commonwealth might well have suffered a grave injury." He welcomed the agreements, which New Zealand would of course carry out both in the letter and in the spirit, reminding the public at the same time that "the advantages thereby accruing would no doubt entail some sacrifice by the community. This," he felt confident, "would be cheerfully accepted by the people of New Zealand, regarding the matter from the broadest possible viewpoint and not with any narrow spirit or sectional interest."

The fears of the meat producers that a limit was to be imposed on New Zealand exports were allayed by Mr. Coates making public his letter of August 19 to Mr. Baldwin, in which he undertook that the Dominion, in order "to assist in the orderly marketing of supplies," would give a reliable estimate as early as possible in each export season of the mutton and lamb to be shipped in it—the shipments are likely to be the same next season as last, *i.e.*, 200,000 tons, and to increase 5 per cent. in each of the two following years. In view of this undertaking, no restrictions will be placed by the British Government upon the importation of any meat from New Zealand until June 30, 1934.

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If I may say so (said Mr. Coates) we may describe the agreement as a "gentlemen's agreement." You may be able to drive a coach and four through the agreement, but this might be said of most agreements.

Examples of press opinions on August 22 and the following day are appended. They contain references to the quota, and there are some interesting second thoughts on the position of New Zealand industries under the new agreement. Mr. Coates's comments on the latter question a month later were as follows :

There were (he said) only a few tariff items in which New Zealand was to lower her tariff rates. None of the rates agreed upon would expose local industries to unreasonable competition. All were keen to build up industries in New Zealand, but there must be some basis of competition. We can't have it both ways.

He added that the manufacturers of the United Kingdom would have the right they had always enjoyed of presenting their views on any tariff changes. The Prime Minister, on the same day, reminded the country that :

If arrangements had been made whereby preferences were granted to Dominion products, the people of the Dominion should remember to respond by buying Great Britain's products. That was a fair, indeed necessary, policy, and one which should not be forgotten.

Mr. Stewart's Visit to London

The decision of the Government that Mr. Downie Stewart, the Minister of Finance and the Secretary of the Treasury, should visit London after the Conference was no surprise. It had been freely suggested before he left New Zealand that Mr. Stewart might do good service by getting into personal contact with the City, and the public, clutching at any straw, had a vague idea that by some magic touch he might be able to lighten New Zealand's load of debt. The successful conversion of Great Britain's war loan encouraged hopes that New Zealand's interest bill might be scaled down in the proportion of 5 to 3½. The *Auckland Star*, for instance, thought that "there was no

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reason why inter-Empire debts should not be discussed without delay, and asked to what length Britain could go to give the Dominions assistance"; and the *New Zealand Herald* rejoiced that in Mr. Stewart the Dominion had a skilled representative "possessing those qualities of character and mind which will safeguard the country's honour in any request for concessions." *The Press*, however, also a Reform organ, warned its public that "it would be quite unreasonable to ask for sweeping conversion of the oversea debt before dealing as sweepingly with the internal." A statement appended to the last budget showed that between 1932 and 1938 (both years inclusive) debts amounting to £55,051,787 would mature, and of this sum only £50,100 was in London, £2,342,950 being held in Australia and £52,658,737 in New Zealand. To the London amount there must, however, now be added the £5,000,000 loan recently raised at 5 per cent. which matures in 1934.

It had been expected that the export licence orders-in-council of December 22, 1931, under which the Government had a first call upon New Zealand exchange credits in London, would have to be kept in operation until the end of the year. The raising of the £5 million loan in London in April has, however, relieved the position, and the pool was abolished as from July 1. Since then the exchange has been subject to ordinary market influences. There was no marked movement in the rate when the market became free, and business has since been done at about 10½ as compared with 10 per cent. under the control.

II. DOMESTIC PROBLEMS

The Land Question

THERE is general agreement that an essential condition of our recovery is a rise in the price of our produce. The question naturally arises—and so far it has had no clear answer—what increase would be acceptable? It has been suggested that the prices ruling three years ago would

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suffice, but an increase that would satisfy the dairy farmers would not satisfy the wool growers, who during the season just closed received an average price of 5.26d. per lb. as compared with 14.99d. in 1928-29.

Unfortunately, New Zealand land, like that of so many other new countries, has not yet passed out of the speculation stage into the more stable, if less showy, conditions which make for expert farming. A large number of farmers are staggering under mortgages which bear too high a ratio to the capital value of their holdings. Just what the weight of this "monkey" on their back amounts to it is impossible to estimate. Suffice it to say that, for years past, the farmer's friends, frankly confessing his dependence on the rentier, have put the interest charge at the head of the sheet in their estimates of the cost of production. With this heavy charge to meet before he can hope to reap any profit, it is little wonder that the farmer has turned from one expedient to another in search of relief. The sheep returns show that the flocks have been reduced since 1929 by 2,235,068 head, or 8 per cent.; last season 1,500,000 more sheep and lambs were slaughtered than in the previous one, a result partly due to the financial straits of the farmers. Yet, on the other hand, there has, in the last two seasons, been an increase of 280,000 in the total number of dairy cows, and though, according to the annual report of the Dairy Produce Board, the yield of butter fat per cow shrank from 218 lb. to 185 lb. between 1929 and 1932, the total output of the industry has increased. The depression has now lasted for at least three years, and many farmers, by reason of their inability to pay interest, have been reduced to the position of caretakers.

It might then reasonably be supposed that the price of land would have dropped substantially, and that prospective small farmers would be able to obtain farms on reasonable terms. This does not, however, seem to be the case. Though "walking off" is a *cliché* at the moment, there are in reality few vacant or derelict farms available for

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new men. A number of mortgages have been made less onerous, and Parliament has reduced the general rate of interest on mortgages by 20 per cent. Large sums have also been voted to subsidise the supply of fertilisers, and many have reaped some benefit from the swing of the exchange. Yet it is obvious that a considerable number of farmers are trying to carry on at valuations which bear no relation to the present earning capacity of the land.

The public lending departments—the Public Trust and the State Advances—are of course in the same position as other mortgagees, and Mr. Ransom, the Minister of Lands, talking things over with the New Zealand Farmers Union, told them that

the present is not the time for revaluation of either Crown or private lands. I am not sure where it might lead to if we attempted to revalue. It has been suggested that the valuation should be put back to the 1927 level, but I do not think we could reach any general level of treatment or general revaluation basis as at any particular year. . . . Our objective is to try to retain all our farmers on their farms.

The arrears of rent owing by crown tenants on March 31 amounted to £1,289,117, and postponements to £298,388, a total of more than £1½ million. Mr. Ransom suggested that it would be a very serious responsibility to wipe off this large amount. The fact is that at present there are no quotable prices for land, for there is no real volume of business in a free market upon which such prices can be based.

The uncertain position prompted the Governor-General to utter a timely warning against a renewal of speculation. Speaking at the Royal Empire Society in Christchurch on August 12, His Excellency said :

Land as a source of wealth ceases to function if it is the object of violent speculation, and practicable measures for avoiding a repetition of this anti-social process are worthy of the serious consideration of economists and legislators alike. The stable country is one in which husbandry is a profitable occupation, and

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in which there is no violent fluctuation of land values as a result of the operations of those whose main object is not to win a living from the land but a temporary profit at its expense. Before prosperity returns this problem will have to be resolutely attacked.

That there is a demand for land in cases where capital is not required was made clear early in August by the Minister, who stated that during the past three years 2,080 crown sections had been taken up, aggregating 738,000 acres.

The Price of Wheat

In face of the partial failure of the wheat crop last summer, the outcry against the high duty on imported wheat shows no sign of abating. For the past decade the price has been regulated by a Statute passed primarily to protect the New Zealand growers who are mainly in the South Island province of Canterbury.* This year the Government had themselves to go into the market to make good the shortage, and last June they purchased 850,000 bushels in Australia, fixing the rates at which it should be sold in New Zealand so as "not to disturb internal price levels." This led to a renewal of public protest. The Auckland Chamber of Commerce was especially incensed at the application of a discriminating duty to equalise prices between North Island and South Island centres.

Although the justification of a tariff has (it said) always been the protection of the local grain industry, the Government is now imposing a purely revenue duty on wheat, and this at a time when poverty stalks in the land. No more inopportune time than the present could have been chosen for this.

The press on both sides of politics joined in the protest. The *Dominion*, for instance, when the legislation was first passed, remarked :

Hardly a day passes without some public body pointing out the handicaps suffered by New Zealand as a whole through the monopoly enjoyed by the Canterbury wheat growers. This monopoly pre-

* THE ROUND TABLE, No. 60, September 1925, p. 850, and No. 63, June 1926, p. 666.

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judices producers, traders and consumers at so many points that it is no exaggeration to call it a national incubus. . . . At a time of unequalled distress our daily bread is dearer than it need be. In this hard winter, moreover, the State is collecting a punishing tax on the raw material of human life. Wheat under milling grade costs twice as much as milling wheat in other countries. The Canterbury wheat growers are penalising . . . all the other producers. The wheat duties are truly a national handicap.

At this juncture the Wheat Board issued a bulletin explaining that the failure of the crop was entirely due to the exceptional season, and that New Zealand can produce suitable wheat for bread of good quality. Further, the Wheat Agency Company, at the end of September, circularised members of Parliament, denying that the duties had much influence either on the cost of living or on the pork and poultry industries.

The Labour Position

Looking back over the quarter it can be said to-day that the labour position—as distinguished from the unemployment question—everything considered, gives distinct reason for satisfaction. It will be remembered that, during the last session of Parliament, the Industrial Conciliation and Arbitration Act was amended, in spite of the determined opposition of the Labour party, by substituting compulsory conciliation for voluntary conciliation and compulsory arbitration.* In the past, practically every dispute considered by the Conciliation Boards had remained unsettled and been automatically passed on to the Arbitration Court. The hearing of the Conciliation Boards had indeed become a superfluous and expensive formality. Under the new Act, if a settlement is not reached before the Conciliation Councils, the existing awards automatically expire after the lapse of a month unless a majority of the assessors recommend a reference to the Arbitration Court. It is thus incumbent on both parties to try to reach a settlement in the first instance if possible.

* THE ROUND TABLE, No. 88, September 1932, p. 913.

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After the passing of this Act the labour unions prepared for a strenuous fight in defence of their rates of pay and standards, and, with the approach of the new exporting season, it was feared that there would be a concerted effort to force the hands of the employers by threats of a strike. For a few weeks the outlook was gloomy in the extreme ; nor did it improve when the first cases came up for hearing. The first one of any importance was from the coal-mining industry in Auckland province. Failure to reach a settlement under the new conditions (which involved a reduction of wages) had led to a suspension of work in the mines and to several abortive conferences. At this stage, however, the Governor-General made a strong appeal to both parties at Helensville.

I earnestly exhort both parties to this ill-timed dispute (said Lord Bledisloe) to get round a table as soon as they possibly can in a friendly spirit, and with a readiness to give credit to each other for fairness of intentions and honesty of purpose ; and resolutely to seek at least a temporary agreement until the nation's present acute distresses are overpast.

Later in the day the Government invited delegates from both sides to meet in Wellington under the chairmanship of the Minister of Labour, and an agreement was reached the following evening, the miners resuming work on July 12 after five weeks idleness.

Close on the heels of this trouble, came the dispute of the waterside workers—the terms of the Auckland ship-owners (also involving a reduction in wages) had been unanimously rejected at a ballot of the workers and the ports of the Dominion were unsettled for weeks. Awards also expired affecting important branches of industry, such as meat-freezing, saw-milling and timber workers, shop assistants, tailoresses, and others. Though many cases remained unsettled, it was, however, already apparent at the end of July that the unions were not disposed to go to the length of a general strike, and the disputes were gradually settled one after another. At the

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same time neither employers nor workers seemed ready for the atmosphere of real conciliation which the amended Act calls for. They have been accustomed for decades to fight at every ditch, and it took all the influence of the press and others to bring home the new duty of really trying to arrive at a settlement by friendly negotiation. The first noteworthy triumph of the new spirit was at Christchurch on August 12 when the parties to the coal, timber and saw-mills dispute came to an agreement without any necessity for the filing of counter-claims by the employers. Five days later came the first settlement by a Conciliation Council of a Dominion-wide dispute, that of the shop assistants; later the miners in the South Island accepted the owners' terms, and although the new terms generally involved a reduction of wages, there was one case at least, that of the Wellington tailoresses, in which an increase of pay was granted by the employers, coupled with a reduction of weekly hours, in return for a promise by the employees to adopt a "team" system of working. In the case of the shearers, the dairy factory hands and the water-side workers, however, the old awards still remain as they were, and the possibility of the export trade being interfered with is not quite eliminated.

These inevitable reductions in wages have been received by the Labour leaders with a feeling akin to despair, and the *New Zealand Worker* appealed to the workers to unite and adopt "a common policy to defeat the wage-slashers."

Unemployment

Meanwhile unemployment continues. In a statement to the House of Representatives, the Acting Minister showed that, for the week ending September 3, there were 49,380 in receipt of relief under scheme V, 7,076 standing down, and 16,785 men and youths in employment provided through the Unemployment Fund—a total of 73,241 males wholly or partially unemployed. The revenue from the fund, which is mainly derived from the 1s. in the £

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tax on wages, salaries, etc., would, Mr. Hamilton estimated, probably yield £3,850,000 in the current financial year. He hoped that, after that month, there would be an appreciable improvement, and a surplus of £100,000 on March 31. As regards the cost of administration of the fund :

It is questionable (said the Minister) if in any other part of the world the financial arrangements of the Government for handling the unemployed problem are as sound as in New Zealand. The whole of this money, amounting to between 3½ and 4 million, is being raised by taxation and not from capital expenditure. The payments given to relief workers continue to be paid in return for work done. Most of this work is useful and is building up valuable assets for New Zealand without adding to the national debt.

The duty of finding work for registered unemployed classed as fit falls on the local bodies. The Unemployment Board has hitherto been paying to the local authorities up to 90 per cent. of the statutory sustenance allowance for men for whom they cannot find work. Feeling, not unreasonably, that some of the local bodies were taking advantage of this to shirk their duty of finding work, the Board decided early in September to reduce its contribution from 90 to 50 per cent. In announcing this decision, Mr. Hamilton repeated the sturdy reply Mr. Forbes gave early in 1931, " the Government's policy all along has been no work, no pay."

Hopeful Signs

Though by no means a pessimist, Mr. Forbes has acquired a distinct reputation, since he became head of the Government, for facing facts and calling a spade a spade. His blunt frankness in putting the financial position before the country indeed, without any attempt to minimise its seriousness, commended him to the public as the type of man the occasion called for. Throughout the long months of depression he has been extremely guarded in his utterances so as to avoid exciting the dangerous delusion that the worst is past and the country on the high road to recovery. When, therefore, he did feel justified, a few months ago,

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in indulging in a mild expression of satisfaction at the state of the public accounts, it was at once taken as a sign that things had touched bottom, even if the hoped for rise was not yet in sight.

At the end of June the accounts for the financial year ended March 31 showed a deficit of £2,140,819, or £400,000 less than the estimate made on the strength of the figures for eleven months of the year. "Such a shortage," said Mr. Forbes, "cannot be accepted with equanimity, but . . . we can at least derive some satisfaction from the fact that it is not as large as we had feared it would be. For the most part this deficiency is caused by the extraordinary expenditure on exchange (£374,000), and the subsidy to the unemployment fund (£1,120,000)."

A week or two later the Prime Minister commented at Christchurch on the upward trend of the markets, especially for wool, and expressed his confidence that from now on there would be a steady improvement in general conditions ; there were many signs of returning confidence, and this in itself was an important step towards recovery. A week later a prominent business man, Mr. Shirtcliffe (chairman of the Royal Commission on National Expenditure), remarked, "there are, I think, distinct indications that the lowest point of the slump has been passed."

The revenue figures for the first three months of the financial year, and the monthly returns of revenue and expenditure for the railway and post office departments, also indicated a slight upward movement, while the customs statistics showed every month a healthy, if in some ways a regrettable, surplus of exports over imports. Though the prices of both wool and meat were still low, the new export season thus opened under distinctly favourable conditions. The benefits to be expected from Ottawa have lost nothing in the telling, and the feeling that something good would come of the Conference helped to infuse the germ of hope into the public mind.

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On September 2 Mr. Forbes went a step further and suggested that there might even be a reduction of the relief tax. "Things are," he said, "moving along very smoothly with the country's finances. An improvement has taken place in the general trading position, and the national revenue is feeling the reflex of returning confidence."

During the winter the favourable visible trade balance, on the basis of value, has been well maintained. According to the Customs Department exports for the production year (which ends on July 31) were valued at £35,125,236, and imports at £23,036,562, showing a favourable balance of £12,088,674, the largest for the last ten years. The exports for the production year just ended were practically the same as for the preceding year, but £20,000,000 less than in 1928 and 1929. Imports, on the other hand, were valued at less than half of their average value for the whole of the period from 1923 to 1930.

The Government Statistician reports that the dairy season just over was a record for output, though the average level of prices for the whole year was slightly lower than for the previous year, and considerably lower for butter. New Zealand stood second last year in the list of butter and also of cheese-exporting countries. So, on the whole, the customs figures amply support the cautious optimism of the Prime Minister.

New Zealand.

October 1, 1932.

New Zealand

APPENDIX

SOME PRESS OPINIONS ON THE OTTAWA AGREEMENT.

"There may be some who will be disappointed. . . . Nor should it be forgotten that the Dominions themselves were determined to continue the protection of their secondary industries against British competition. The drive to secure restriction on British imports of Argentine chilled beef has succeeded. . . . How far this is going to help the mutton and lamb market in which New Zealand is chiefly interested remains to be seen. . . . It also appears as if some limits are to be placed on Australian and New Zealand exports of mutton and lamb to Britain. This agreement cannot at present be regarded with equanimity. . . . Altogether the Conference has proved a first-class success. Looked at in comparison with its predecessors, it outtops them all. Regarded in the light of what had been possible a year ago it gives cause to marvel."—*The Dominion* (Reform).

"Most dairy farmers will be glad that the proposal to apply quotas to dairy produce was abandoned in favour of a quantitative preference. . . . By themselves these preference agreements cannot substantially increase the value of Dominion exports. For both Australia and New Zealand there can be no return to prosperity without a rise in commodity prices."—*The Press* (Reform).

"The goal of reciprocal preference has been brought appreciably nearer. As an effort to raise and stabilise price the quota may have practical merit. It is a virtual invitation to South American countries to select for export to Britain only the highest quality and thus to intensify, on a qualitative basis, foreign competition with the Dominions. It is well that the quota arrangements are subject to early review, with the expectation that the more stable effect of preference may be advantageously substituted."—*The New Zealand Herald* (Reform).

"The British Empire will not be made more lasting than Imperial Rome merely because its Dominions have been given tariff advantages over their rivals. It will not be able to exist as a permanent and legitimate force in the world of free trade and free competition. Its prestige can be maintained, its advance secured, only by a gradual realisation of their true responsibilities by the statesmen controlling every unit."—*The Sun* (Independent).

"If there is a catch in any of these agreements it has not been deliberately inserted, and the miracle is that within a month such unanimous agreements should have been arrived at. . . . Ottawa is a beginning, and the possibilities are limitless."—*The Star*, Christchurch (Liberal).

"The development is not merely an event; it is a revolution. We gave preference to the goods of the Mother Country because it was manifestly to our interest to assist the country that constitutes the main market for our own exports. . . . The character of the British Empire has been changed overnight, and that, surely, is a fact of tremendous historical importance."—*The Times*, Christchurch (Liberal).

"The question which secondary industries must soon face is whether

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they will rely on efficiency or on tariff protection for their continuance.”
—*The Evening Star* (Dunedin).

The *Auckland Star*, another strong Liberal organ, suggested that the reconciling of a lowered tariff with the policy of fostering secondary industries “will present as delicate a task as any New Zealand Government has undertaken.”

The *Otago Daily Times* said that “the agreement would not bring any gratification to industries in this country which are more or less dependent upon the protection they receive for their ability to carry on. Generally the prospect of a reduced tariff may be regarded as a challenge to the New Zealand manufacturer to strengthen his position, to organise his enterprise in a manner that will secure a maximum of efficiency.”

The *Christchurch Press* believed that “the Tariff Commission will have an unpopular and extremely difficult task. There will have to be much arduous negotiation, in which the Governments of the Empire will be called on to show the same patience and generosity as they showed at Ottawa.”

The *Christchurch Sun* believed that “all but the strongest New Zealand manufacturing industries may be driven to the wall. There is a possibility that more has been given than may in the end prove to be economically expedient. The strongest industries are the ones that deserve to stand, but there are certain industries which deserve to be encouraged because of their potentialities. . . . The Government will be a poor servant of the people if it is so enthusiastic in its loyalty to Great Britain as to be negligent of its obligations to the manufacturers of this country and the people who rely upon prosperous factories for their welfare. It will be a bad day for this country if the manufacturing industries are butchered for the purpose of gaining new concessions for meat and butter.”

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